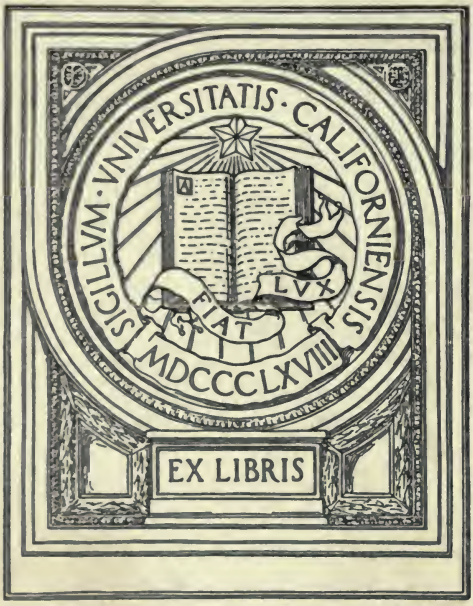
F
1512
.95
.P3
pt.2



BANCROFT LIBRARY

87.07 P2

THE MORGAN-HONDURAS LOAN

SECOND PART

THE EXTERNAL DEBT OF HONDURAS

ORLEANS:
am Co., Ltd., Printers
1912

THE

MORGAN-HONDURAS

LOAN

by Juan E. Paredes.

SECOND PART

THE EXTERNAL DEBT OF HONDURAS

NEW ORLEANS:
The L. Graham Co., Ltd., Printers
1912

F1512
.96
.P3
pt.2

35245
Bancroft Library

W. HAWKINS JAN.'39

INTRODUCTION.

After the publication of the history of the Morgan Loan scheme in November last, I now deem it necessary, in this second volume, to give to the public the history of the External Debt of Honduras, basis of the Morgan proposition.

JUAN E. PAREDES.

New Orleans, La., January, 1912.

Digitized by the Internet Archive
in 2007 with funding from
Microsoft Corporation

http://www.archive.org/details/morganhonduraslo02parerich

The Honduras Problem.

Before presenting our case we want to define our position in regard to general policies, so that misunderstandings may be avoided.

In the first place, we want to declare that stability of Government, order, peace, and credit, are indispensable for the development of our country, for the welfare of our people and for the maintenance of friendly relations and commercial intercourse with foreign countries.

Secondly, we must frankly admit that the trouble with us in the past has been that we have very seldom abided by our written constitution, in so far as liberty of the press, freedom of speech, fair elections and presidential terms are concerned; and that party strife very often wipes out all constitutional barriers, establishing in their stead dictatorships and military rule.

And furthermore, it is an undeniable fact that the two old political parties of Central America, called the Liberals (radicals), and the Conservatives (clericals), have often waged wars against each other, which have given us a bad name before the civilized world, which hears so much of the *Revolutions of Central America.*

But, in the true sense of the word, we have no international wars: our political contests are kept on party lines, regardless of state boundaries, as we do not consider the Central American States as foreign countries, but as temporarily separated sections of one nation. Indemnization of war, seizure or cession of territory are never contemplated in our peace treaties, or in the adjustment of our differences. Our partisan struggles are family quarrels, confined only to a change of administration and policies, as we all regard Central America as our common country, as is Spain to an Asturean, Italy to a Sicilian, France to a Gascon.

The Independence and Union of the Central American States are our common inheritance, and we cherish both of them as a sacred legacy from our ancestors.

And we believe, and sincerely believe it, that *the reunion of the Central American States is the only logical solution of our political and economical problems;* that the consolidation of the five States *under one administration* is the only safe way to assure a stable, orderly and just government, permanent peace, sound

finances, popular education and industrial and commercial development.

We trust in our Union: our destiny is a United Central America under the *White and Blue* flag. And we expect that, sooner or later, we will be one Nation, as the United Germany and the United Italy of these days.

In the meantime, we have to deal severally with the individual States' problems.

In regard to Honduras, we may say that we have always welcomed anything that we deem contributory to the development of the country and to the welfare of its people, but never have entertained any idea, suggestion or proposition which might endanger our national sovereignty and independence, or prevent the reunion of the Central American States, to which we are solemnly pledged by the first article of our constitution.

Although we duly appreciate the importance and influence of the investment of foreign capital in the development of the natural resources of our country, we understand that the mere exploitation of them without any other consideration does not contribute to the material growth and strength of the nation. If new people do not come to stay and settle in our land, to live with us and to become naturalized and raise their families, it would mean a mere renunciation of our resources for the benefit of strangers. By turning over the natural resources of our country to foreign hands, leaving nothing for future generations of our own, we would stultify ourselves to the utmost.

We must follow the example set by the United States with their new conservation policy, to preserve from waste the wealth stored by nature for all generations.

We are not disposed to turn over our natural resources and the management of our own affairs to foreign hands, and thus put ourselves in bondage and in servitude under the so-called benevolent tutelage of the Americans, the British, or any other foreign nation, under the pretext of rehabilitation of our credit and the illusion of progress, peace and prosperity. We have no faith in the benevolence of foreign governments, as we do not believe in the theory of giving something for nothing. We suspect this kind of benevolence, and we doubt this sort of philanthropic proposition. *Egypt, Morocco and Persia are object lessons which we always bear in mind.*

Foreigners are welcome to our country with their capital, industry, knowledge and experience, provided they come to invest their capital and exert their activities under our laws. They must come to work and trade on competitive lines of production and exchange, as we do not believe in trusts or monopolies, but in free competition and just distribution of wealth.

We are committed to the "Open Door" policy since 1853, when we granted the first concession for the building of the Inter-Oceanic Railway across our territory. We adhered to the same policies by public treaties with Great Britain, France, and the United States, in 1856 and 1864. We maintain that policy and intend to maintain it regardless of intervention, co-ercion or pressure from the outside.

The mere suggestion of guardianship, tutelage or protectorate over a free people is offensive enough to create resentment; and we resent it indeed.

We are surprised by the change of attitude of the State Department of the United States in its Central American policy.

We recollect the Clayton-Bulwer Treaty of 1850, and all what the United States did to prevent Great Britain from holding territory in our country. We appreciated the good offices of "Uncle Sam" at that time.

But when we see that under the pretext of helpfulness and co-operation, the United States now is trying to take practical possession of our country to be exlpoited by New York financiers and promoters, taking from us not only our natural resources and our own money, but our autonomy, too, converting us into vassals and serfs of this new feudal system of Wall Street, then our love of country and liberty demands of us to stand firm and united against foreign greed.

In view of our attitude, the United States will have to come to the open as conquerors, if they want to subjugate the Central American States. Then the United States would prove that the Pan-American Union has been a farce; they would then show their ambitions, and prove the true meaning of the Monroe Doctrine; and Europe would know that the object of the United States, in excluding Europe from this continent, is only to preserve Latin-America for the future prey of their greed.

We are not refractory to civilization, or blind to the signs

of the times. We know that we cannot stop progress, and we understand the new conditions of the business world. We know that lack of political stability and of transportation facilities are the main objections for the settlement of immigrants and investment of capital in Honduras. We know that nobody dares to immigrate to a country of daily political disturbances and without good roads. We are well aware of these facts, and, for the very reason, decided long ago to open the country to foreign capital and trade, through the construction of an Inter-Oceanic Railway across our territory.

We believe that the proper way to develope the natural resources of our country and bring capital and population to our soil, is by means of transportation, run by steam or electricity. In this point our people are all in accord and feel enthusiastic about it.

When the Americans, British, and French failed to comply with their contracts to build the Inter-Oceanic Railway, from 1853 to 1866, we embarked ourselves in the same scheme authorizing the issue of the famous Railway Bonds which serve to-day to the speculators and promoters of the Morgan Loan scheme to get control of our Inter-Oceanic route and Customs revenues of the country with the support and assistance of the United States Government.

After the Railway fiasco of 1872, Honduras has made many attempts to settle the Bonds question and to proceed with the Railway construction. The subject has proved to be a knotty problem, and remains as the stumbling block in our path to progress and prosperity. From its final solution depends to certain extent the industrial and commercial development of the country, and the welfare of its inhabitants.

Our view of the importance and influence of the Inter-Oceanic Railway on the future rehabilitation of Honduras is that it will revolutionize our social, political and economical conditions: that it will open the country to foreign capital and trade: that the investment of capital and employment of labor in big enterprises will contribute to bring peace and stability, which we long for: that the population and wealth of the country will increase enormously by immigration, production and traffic: that schools, libraries, theatres, waterworks, electric light plants, factories, street

cars and all the comforts of modern civilization will be the natural effect of new conditions.

We understand that transportation is the basis of big production, big markets, good profits, high wages, comfort and education. We do not see any chance or use for big production without a corresponding market; and for reaching that market, means of transportation are necessary.

For these reasons we consider transportation as the corner stone of our material progress.

But our question remains unanswered.

How to get transportation?

Many times we have attempted to get it, but every combination has met with failure, and the Inter-Oceanic Railway Bonds continue to be a heavy cloud over the country. And although the British Parliament, 1875, proved the innocence of Honduras in the Railway Loans frauds of 1867, 1869, and 1870, nevertheless the matter stands unsettled, and the Railway has not been built, the old Bonds have not been cancelled or refunded, and the country remains undeveloped.

Why?

What is the difficulty?

Where is the obstacle?

Now we come to the point when we have to use *plain talk.*

A conspiracy of New York promoters have for years tried to confiscate the Inter-Oceanic Railway and to take hold of the Custom Houses of Honduras; but the British Bondholders have always opposed their schemes, alleging vested rights to the Railway which was built with British money.

The American Government have repeatedly supported the American claims, and the British Government have firmly supported the Bondholders rights. Protests from both sides have prevented any final agreement or understanding.

As a solution of the difficulty Honduras entered into an arrangement with the Bondholders through H. B. M. Minister, Lionel Carden; arrangement which was officially announced to have been accepted, but which eventually was not carried out on account of interference by the United States Government which brought forth the Morgan Loan scheme.

Honduras has rejected the proposition for the following reasons:

1. The proceeds of the Loan will not benefit Honduras at all as one half will go to the speculators of the old Railway Bonds, and the other half will be left in New York to be divided between the promoters of the Loan scheme and the manipulators of the Railway and Wharf contracts.

2. According to the Morgan plan, only a small portion of the Loan is to be applied to the Railway: that means that the completion of the Inter-Oceanic Line cannot be accomplished within 40 years.

3. The hypothecation of all the Customs Revenues, Railway, and Wharf, will prevent Honduras from contracting with, or granting to, third parties, the construction of the Inter-Oceanic Railway, or negotiate a loan for that purpose.

4. No reciprocity treaties or concessions for new enterprises are possible, as changes on the tariff or dispensation of duties cannot be made without the consent of the Bankers.

5. Honduras cannot re-enter into the Central American Union, having her revenues tied up by Treaty and Contracts.

6. The drain of money from the country by monthly remittances to New York will paralyse business and impoverish the people.

7. The Custom Houses, Railway, and Wharf, being under the direct control of the Bankers, and administered by their Agents under the protection of the United States Government and beyond the control of Honduras, make such Bankers and Agents unaccountable to Honduras for their acts; their responsibility cannot be fixed by our laws; their abuses would be ruinous to Honduras interests; and

8. The Bankers controlling the Custom Houses, the Railway and Wharf and the revenues thereof will practically establish a *trust*, which will not only mean the restriction of trade, but will make absolutely impossible any competition in the country for all concerns not connected with the Morgan Syndicate.

For the above reasons Honduras has rejected the proposed Morgan Loan, and declared her good disposition to entertain a new proposal.

What kind of settlement would be acceptable and practicable, and satisfactory?

We suggest three plans:

1. A plan of gradual amortization of the old Bonds, through a Sinking Fund formed with a percentage of the Custom Revenues, as was proposed by the Bondholders in 1903.

2. A plan of conversion of the old Bonds by issuing new Bonds, bearing interest, with the guarantee of a percentage of the Custom Revenues, as was proposed in 1897.

3. The plan proposed by Minister Carden in 1909.

Any of them is practicable.

The fundamental objection being that the British will not be allowed to control the Inter-Oceanic Railway or the Custom Houses of Honduras, on account of the Monroe Doctrine, we are disposed to settle the Bonds question by paying fixed annual installments to the British, and by letting the Americans construct the Railway; but by no means will we give up the administration of the Custom Houses to either the British or the Americans.

Brief History of the Foreign Debt.

BRIEF HISTORY OF THE FOREIGN DEBT.

As the Foreign Debt and the Inter-oceanic Railway are intimately connected with the so-called Morgan Honduras Loan, I now give a brief account of the origin of the Foreign Debt and of the many attempts and efforts which Honduras has made to settle the debt and to obtain an inter-oceanic highway.

The Honduras Foreign Debt originated from three loans, issued in London and Paris in 1867, 1869 and 1870, respectively, for the construction of an Inter-Oceanic Railway from Puerto Cortes, on the Atlantic, to the Bay of Fonseca, on the Pacific.

In connection with the foregoing loans was an issue of Bonds in 1867 for £90,000 for the ostensible conversion of the so-called Federal Debt, which in reality had been fully paid under formal contracts and Treaty conventions.

Actually, Honduras was solvent with the world when these Railway transactions began—but the Government was ignorant of the details of the Federal Debt settlement. When discovered, a Special Commissioner was sent to London to demand cancellation and retirement of the Bonds.

The first Railway Loan was issued for a nominal amount of £1,000,000; the second for £2,490,108; and the third for £2,500,000. Total £5,990,108, reduced by amortization to £5,398,570.

The Interest and Sinking Fund of the three Loans together originally required an annuity of £695,700, covering a period of 15 years.

When these Loans were contracted for, it was calculated by the Bankers and Promoters that the earnings of the Railway would cover their service.

In the meantime, and during the construction period, the first payments would be made from the products of mines, Mahogany royalities and from the proceeds of the Loans. And, it was so provided for, because Honduras had no financial resources to pledge for the loan service.

In 1872 the whole structure collapsed: it was founded on quicksand. Frauds were committed in London and Paris: the Government was misled: the Railway contractors defaulted: only 56 miles of road were imperfectly constructed, and the works abandoned.

In consequence the subscribers to the Loans found themselves the holders of such worthless paper, secured only by future guarantees, that we might reasonably call them imaginary and fictitious.

In 1873 the Bondholders decided and agreed to organize a Joint Stock Company and change their Bonds into shares of a new Inter-Oceanic Railway Company, and then issue new Bonds in order to raise money to proceed with the work of construction to complete the line. They made an agreement with the Government of Honduras on the above basis, which was duly ratified by Congress.

In other words, the Bondholders agreed to accept the Railway for the Debt, but the Company was apparently unable to raise the necessary funds to carry on the construction of the line, incurred debts, and returned the Railway to the Government, which paid the debts. incurred by the Bondholders Co.

In 1875, the British Parliament ordered an investigation of certain Foreign Loans which had gone into default. The Honduras Loans were a subject of severe criticisms on the part of the Parliamentary Committee, on account of enormous frauds, misapplication of funds and lack of adequate security.

From the select Committee's report of 1875, it appears that only 53 miles of road were constructed, for which the contractors apparently received £689,745. The balance of the proceeds of the Loans were diverted to other purposes and wasted on commissions, discounts, expenses, salaries, interest, amortization, etc., etc., in London and Paris.

Honduras and the bona-fide purchasers of the Bonds were the victims. The British Government and the Committee of Bondholders exonerated Honduras from the moral responsibility of the frauds.

Nevertheless, Honduras has always been desirous of coming to an understanding with the Bondholders and has always been disposed to make an arrangement on a fair and equitable basis for the settlement of the Railway Debt.

In 1882, a concession was granted to J. L. Hance and John J. Waterbury, of New York, to build the Inter-Oceanic Railway. Nothing was accomplished by this contract.

In 1887, the Government granted a concession to a Mr. Bin-

ney, of London, who organized a new Company to construct the Inter-Oceanic Railway and settle the Foreign Debt.

Changes to the contract were proposed which were accepted in 1890.

The Company was unable to raise the money required for the R. Rd. Construction, and the concession expired in 1892.

From 1892 to 1896 the Railway was operated by Valentine and Associates under leases.

In 1896, a contract was signed with the Honduras Railroad Company, of New York, represented by Mr. Valentine, to the same end and for the completion of the Inter-Oceanic Railway to the Pacific. This Company subsequently transferred their rights to the Honduras Syndicate.

In 1897, a contract was signed with the Honduras Syndicate for the reconstruction of the first section of the Railway, for the completion of the Inter-Oceanic line, the settlement of the Foreign Debt and the establishment of a Bank, the Syndicate being represented by Mr. Valentine, and by Henry L. Sprague, law partner of Mr. Jennings.

This Syndicate was composed of the following prominent New York Capitalists, Lawyers, Financiers and Promoters:

Chauncey M. Depew,	W. Seward Webb,
John Jacob Astor,	Benjamin F. Tracy,
J. C. McCullough,	Frederick B. Jennings,
Geo. S. Scott,	Nathaniel A. Prentiss,
Charles McVeigh,	Melville E. Ingalls, Jr.

The Syndicate found out later on that this plan was impracticable, and disagreements arose. They failed to arrange the Debt or build the Railway.

In 1900, the same Syndicate contracted again with the Government for the construction of the Railway, from La Pimienta to the Pacific, cancelling the obligations for the settlement of the Foreign Debt and the Bank scheme, and absolutely terminating the contract of 1897. The Syndicate and the Government obligated themselves not to make or continue any reclamation, or exact indemnization of any character, by reason of the Contract that day terminated, in respect to any reclamation or indemnization relating to failure of compliance or acts prior to that date.

This contract was approved by Decree No. 2, of the National Congress, May 26th, 1900.

In 1902, the Syndicate asked for, and obtained from the Executive, an extension of time of one year to carry out their obligations, subject to the approval of Congress.

In order to obtain this extension of time the Syndicate, through its legal representative agreed, that in case the National Congress at its next session should not approve the extension of time, or in case the time should expire and the Syndicate did not comply meanwhile with the obligations of their contract, they would peaceably surrender the Railway without reclamations for indemnization, and renouncing arbitration.

In 1903, this extension of time expired, and the Syndicate delivered the Railway to the Government in conformity with their agreement of 1902.

The Syndicate then filed a claim against Honduras for $1,-056,393.

In the same year the Council of Foreign Bondholders made a proposition for the settlement of the Debt and completion of the Inter-Oceanic Railway. Honduras was asked to pay $100,000 per year, rising by four-yearly increments of $20,000, in order to cancel all the old bonds in 27 years—retiring £200,000 Bonds per year—by a total payment of $4,200,000.

The United States Government objected to this arrangement through its Legation by the following communication:

(*Telegram.*)

Guatemala, July, 3, 1903.

Minister of Foreign Relations, Tegucigalpa:

"My Government disapproves of the terms of the proposal of the Squier Syndicate.

"I am opposed that an American Corporation shall be the medium of celebrating an arrangement between Honduras and the Foreign Bondholders with respect to a Debt relative to which is alleged grave frauds, illegalities and injustice.

"I beg the honor of a reply by telegraph to this message."

(Signed) LESLIE COMBES,
Minister of the United States.

In 1904, Honduras signed an agreement, through Minister Ugarte in New York, with the Squier Syndicate to the effect that the Syndicate should buy the first section of the Railway for $500,000, paying proceeds to the Bondholders on account of the Debt, and finish the Inter-Oceanic Railway, within a certain period. Honduras was disposed to accept this proposal of the Bondholders, and to pay $100,000 per year from the Revenues collected at the Custom House of Puerto Cortes, for the amortization of the balance of the old Bonds at 8% of their face value without interest. In this manner the whole Debt could be cancelled by paying $2,159,428—less value of Bonds amortized with the proceeds of the Railway.

This plan was, however, abandoned on account of objections raised by the United States Government.

In 1908, the same Squier Syndicate advanced a new proposition to the Government of Honduras, which was declared unacceptable by the Bondholders.

In 1909, the British Minister to Central America, Mr. Lionel Carden, arrived at Tegucigalpa for the purpose of making an arrangement for the settlement of the Foreign Debt. On the 10th of March, he presented to the Government a proposal which was treated and finally agreed to on the following basis:

The amount of the debt was fixed at £452,000, discarding all back interest of 38 years, but charging interest at 8.86% for the following 40 years.

Principal and Interest cumulated for 40 years would amount to £1,600,000, to be paid by annual installments of £40,000 each.

These annuities were to be applied to the amortization of old bonds by drawings or by purchases.

For the payment of said annuities of £40,000, the Government compromised itself and ceded to the Bondholders the Revenues of the Railroad and Wharf at Puerto Cortes, and 15% additional charge on the Import duties.

In order to put said Railway in a state of repair, to build branches, and to extend the same to the south, the Government and the Bondholders agreed that the Republic should issue new Bonds to the amount of $500,000 (£100,000), secured by the net earnings of the Railway; thus constituting a preferential charge on the same.

The Government insisted on raising to $1,000,000 (£200,000), the amount of the new Loan, and the Bondholders gave their assent, with the approval of the British Government through the British Legation.

(*Telegram No.* 142.)

Guatemala, June 25, 1909.

His Excellency, President Davila, Tegucigalpa:

"By instructions received from my Government I have the honor to advise your Excellency the acceptance on the part of the Foreign Bondholders of London, of the Basis of arrangement of the External Debt of Honduras proposed by your Excellency on the 11th of March, of the current year.

"At the same time I have the pleasure of expressing the satisfaction with which the Government of H. B. M. has seen the good disposition and conciliatory spirit displayed by the Government of your Excellency in the negotiations due to which it was made possible to arrive at a solution so satisfactory and honorable for both parties.

(Signed) BRITISH MINISTER.

It was also agreed that should the Revenues compromised in the agreement not cover an annuity in any one year, the deficit was to be paid only from the surplus of coming years.

Also, that should there be any surplus, or balance, in favor of the Government, it was to be applied to the extension of the Railroad which remained the property of the Government.

This plan would have worked out as follows:

REVENUES.

40% of R. Rd. gross earnings, yearly	$ 76,800.00
90% of Wharf gross earnings, yearly	43,200.00
15% of additional charges on Import Duties	108,000.00
	$228,000.00

DEBT SERVICE.

5% Interest on $1,000,000 New Bonds	$ 50,000.00
1% Sinking Funds on $1,000,000 New Bonds	10,000.00
£40,000 for amortization Old Bonds	200,000.00
	$260,000.00
Deficit 1st year	32,000.00

This estimate of revenue is based upon actual products. But with the extension of Railway to new banana fields the earnings of same and Wharf would increase sufficiently to cover the deficit within the next two years.

In order to remedy this feature of the agreement, and avoid any temporary deficit, the Government was disposed, in recognition of the large advance made to improve the Railroad, to fix a certain amount from the Revenues collected at the Custom House of Puerto Cortes, worth $800,000 silver a year—equivalent to $320,000 gold; and from its Customs the Government would dispose of $150,000 a year.

In this way the annuity could be made out as follows:

40% gross earnings of Railroad yearly	$ 76,800.00
90% gross earnings of Wharf yearly	43,200.00
Puerto Cortez Customs	150,000.00
Total	$270,000.00
Surplus	10,000.00

Any surplus to be applied to the Railroad construction.

It was agreed, and expressly stipulated, that the Government and the Bondholders should contract with a third party for the construction, equipment, maintenance and operation of said Railroad and Wharf, and that their net proceeds be applied to the purpose aforesaid.

But nowhere in this agreement appears anything to show that the construction of the Inter-Oceanic Railway was prevented.

The new Loan was only secured by the net earnings of the Railway.

It was contemplated that at the time of drawing up of the contract for the reconstruction and operation of the Railway, all provisions would be made for the completion of the line to the Pacific Ocean, leaving open the door for new propositions.

On account of the Claims of the Honduras Syndicate and W. S. Valentine, the United States Government interferred to break up this arrangement. The Morgan proposition was brought forward by the United States Government and the Government of Honduras was urged to accept it under heavy pressure.

THE MORGAN PROPOSITION.

In July 1909, Mr. Morgan got an option from the Council of Foreign Bondholders in London, to acquire the Honduras Bonds at 15% of their face value, with their unpaid coupons attached, provided that a settlement of the Honduras Debts could be arranged between the United States and Honduras prior to August 4th, 1910.

This option was subsequently extended to February 4th, 1911.

To carry this scheme through, the United States Government on July 17, 1909, invited Honduras to deal with Messrs. J. P. Morgan and Company, as may be seen by the following:

MEMORANDUM.

"Under instructions from my Government, which I have just received by telegraph, I have the honor and the pleasure to inform the Government of Honduras that the firm of J. P. Morgan and Company has informed my Government that they are prepared to agree on the arrangement of the Foreign Debt of Honduras, the delivery of the Railway and Wharf of Puerto Cortes and the advancement of a substantial amount for internal improvements which may be necessary, acquiring new bonds which must be duly secured."

"Messrs. Morgan and Company have notified my Government that the Council of Foreign Bondholders had accepted the proposal of Morgan and Company, who now have control of the British and American securities, including the Railway and Wharf, and that the Council of Foreign Bondholders, acting on behalf of the holders of Bonds, have informed the British Secretary of State for Foreign Affairs of the foregoing, and that the Secretary of State for Foreign Affairs, having cordially approved the new project has, by request of the Council of Bondholders, given notice to Minister Carden of the change in the situation.

"I have instructions to manifest that if the Government of Honduras would send a special Agent to the United States with full powers to negotiate with Morgan and Company, the Government of the United States would extend to him all facilities.

"I beg to add that the Government of the United States feels itself happy to see, in the said proposals, the prospect of a good

result and for a settlement upon a favorable basis for the amortization of the National Debt which would be for the prosperity, tranquility and national strength of Honduras."

(Signed) PHILIP BROWN.

Surprised by this invitation in the face of an agreement closed with creditors, and approved by the British Government, the Government of Honduras, before complying with the indication from the State Department, addressed the British Minister, to know the situation, and received the following communication:

British Legation, Guatamala, July 31, 1909.

To His Excellency, Don Jose Maria Ochoa,
Minister of Foreign Relations, Tegucigalpa.

Mr. Minister:

"Under instructions from H. B. M. Government I must manifest to your Excellency, for the information of the Government of Honduras, that the Council of Foreign Bondholders feels sorry that circumstances foreign to their will had obliged them to abandon the agreements for the settlement of the Debt to which they had previously consented.

"The Government of Your Excellency is therefore relieved of the compromise made with the British Bondholders and is free to enter into new arrangements.

"I have sent to-day, instructions by telegraph, to H. B. M. Consul *ad interim* in Tegucigalpa to notify Your Excellency in the sense above referred to.

"I avail of this opportunity to renew to Your Excellency the protests of my most distinguished consideration and esteem."

(Signed) LIONEL CARDEN.

The Minister of Finance of Honduras (Senor Juan E. Paredes), was sent to New York as "Special Financial Agent" of his Government, for the purpose of seeing what overtures Mr. Morgan would make for the proposed settlement of the Debt. He was accompanied by the Secretary to the President of Honduras (Senor Valladares).

Mr. Paredes had two interviews with Mr. Davison, of J. P. Morgan and Company, after which Mr. Frederick B. Jennings, of the Law Firm of Stetson, Jennings and Russell, took up the

subject with Mr. Paredes, in behalf of the State Department and of the Bankers.

Mr. Jennings was a member of the Honduras Syndicate, who has a Claim against Honduras. He made the Drafts of the proposed agreements and insisted on including the Claims in the Contract, and did his utmost to prevent their discussion, in order to force Honduras to yield to the conditions imposed by Morgan.

His plan was as follows:

"To issue $10,000,000 at 88% of their nominal value, with 5% Interest for Sinking Fund, to be redeemed in 40 years.

"The net proceeds of the Loan to be divided among the Bankers (J. P. Morgan and Associates), the claimants Honduras Syndicate (Frederick B. Jennings, Henry L. Sprague, W. S. Valentine, etc.), and the Railway and Wharf lessees (W. S. Valentine, Geo. Scott, Henry L. Sprague, Frederick S. Jennings, etc.), and the remainder, if any, to the Railway contractors.

"As security of the new Bonds Honduras must give up all Customs Revenues, the Railway and the Wharf at Puerto Cortes, to be administered by the bankers' own Agents, the products to be remitted to the Fiscal Agent of the Loan at New York.

In this way Honduras would be deprived of its principal revenues during 40 years. The annual disbursements would be as follows:

5% Interest on $10,000,000 Bonds	$500,000.00
1% amortization on $10,000,000 Bonds	100,000.00
Customs collection expenses	40,000.00
Fiscal Agency Expenses	10,000.00
Total	$650,000.00

COMPARISON.

Annuity as per Morgan's proposition	$650,000.00
Annuity as per Carden's proposition	260,000.00
Difference	$390,000.00

This last amount, $390,000.00, is equivalent to $975,000.00 silver a year, which represents the remainder of total Customs receipts under the Carden agreement, which was absolutely re-

quired by Honduras to cover the annual expenses of the administration.

In 40 years, therefore, we would pay extra under the Morgan plan, $15,600,000; but it is not only a question of paying in excess this enormous amount, but that the country cannot afford to pay $650,000 a year, as the total income from the government revenues amounts only to $3,500,000 (silver), equivalent to $1,400,000 gold. The balance left to the Administration for all its different departments would be only $750,000, which is a material impossibility.

As in the distribution of the proceeds of the loan only a small portion is set aside for material improvements, the development of the country is not assured, neither the increase of her revenues; and if the actual income of the Government is reduced to $750,000, then Honduras could not even maintain her existing status of progress.

To deprive Honduras of her Revenues for the benefit of New York Bankers, means drawing away all the money in circulation in the country, bringing poverty to her people and paralization to her commerce.

It is incredible that the people of the United States in view of such flagrant injustice, would consent to the spoliation of a neighboring Republic on account of its being weak and powerless to prevent such iniquity.

The ruin of Honduras would undoubtedly affect the business interests of all Americans who are looking southward to increase their trade.

Honduras is a good field for financial investments and business enterprises on a sound basis, provided equal opportunities are given to all competitors.

The country is rich in natural resources, unexcelled in climate, and once she gets transportation her rapid development will be an accomplished fact.

But, if a New York combination, composed of the representatives of the most formidable monopolies in existence, are allowed to unjustly take control of the country and its resources, then all opporunity for competitive enterprises and legitimate investment of capital by others will be forever destroyed.

Setting aside consideration of monetary losses and economic

results for Honduras, its citizens must reflect over a more serious aspect of the proposals embraced in the Treaty and Bankers' and Fiscal Agents' agreements.

We must consider the loss of National Independence, and when we become contractual vassals of the money powers and monopoly, this heritage will be transmitted to our children instead of the precious legacy of freedom handed down to us by our forefathers.

It we become a consenting party, we commit a crime against our country and against our posterity.

DOCUMENTS.

First

Honduras Railway Loan,

London, 1867.

HONDURAS LOAN OF ONE MILLION STERLING.
LONDON, 1867.

HONDURAS GOVERNMENT RAILWAY LOAN.
£1,000,000.

"In Bonds to Bearer, £100, £500, and £1,000 each, bearing 10 per cent. Annual Interest, payable half-yearly in sterling. Issued at 80 per cent, and to be redeemed at par, in sterling, within 17 years, by Yearly Drawings, by means of an Accumulative Sinking Fund of 3 per cent per annum.

"The first Drawing will take place on December 31, 1869.

"The payments by Subscribers will be as follows:

			£	s.	d.	£	s.	d.
5 per cent.	on application	..	..	..	5	0	0
10 " "	on allotment	..	..	..	10	0	0
10 " "	on January 1st, 1868, less int..	0	9	4½	9	10	7½
15 " "	on July 1st, 1868, less int....	1	11	3	13	8	9
20 " "	on January 1st, 1869, less int..	2	10	0	17	10	0
20 " "	on April 1st, 1869, less int....	1	17	6	18	2	6
80 per cent.					£73	11	10½

"Interest will be payable on the 1st of July and the 1st of January in each year, at the London and County Bank, and, for the first installment of £15, will date from October 1, 1867.

"In default of payment of any of the respective installments, all previous payments will be liable to forfeiture.

"The installments may be anticipated at any time at Bank of England rate.

"The Government of Honduras having agreed to appropriate to the Subscribers a moiety of the net profits of the Railway during 15 years after the complete repayment of the present Loan, Subscribers will receive as bonus, within one month after allotment, with each £100 Bond, one 10,000th deferred fully paid-up Railway Share to Bearer, entitling the holder thereof to receive his proportion of such net profits.

PROSPECTUS.

"The President of the Republic of Honduras, being duly authorized, has given full powers to Mons. Victor Herran, Minister at Paris, and Senor Don. Carlos Gitierrez, Honduras Minister in London, to contract on account of the Government a Loan, to be applied towards the construction of an Inter-Oceanic Railway from Puerto Caballos, on the Atlantic, to the Bay of Fonseca, on the Pacific.

"To show the importance attached by the British Government to the Honduras Inter-Oceanic Railway, it may be stated that the line has been surveyed on the part of Her Majesty's Government, by Lieutenant Solonel Stanton, R. E., and a detachment of Royal Engineers sent out for the purpose. Colonel Stanton reports, 'that the harbors at both termini are unexceptionable,' and that the road can be constructed without any sharper curves or heavier gradients than are to be found on existing lines over which locomotives work without difficulty.

"The new Treaty between Honduras and Great Britain declares that:

"In order to secure the construction and permanence of the route or road herein contemplated, and to secure for the benefit of mankind the uninterrupted advantage of such communication from sea to sea, Her Britannic Majesty recognizes the rights of sovereignty and property of Honduras in and over the line of the said road, and for the same reason guarantees, positively and efficaciously, the entire neutrality of the same. And when the proposed road shall have been completed, Her Britannic Majesty equally engages, in conjunction with the Republic of Honduras, to protect the same from interruption, seizure, or unjust confiscation, from whatsoever quarter the attempt may proceed.

"Treaties signed by the Honduras Government with France and the United States contain the same provisions, and the French Government, considering the public utility of the Honduras Railway, has promised the official quotation of the Honduras Loan on the Paris Bourse.

"The following official report by Rear-Admiral Davis, made to the Secretary of the Navy of the United States Government, in compliance with a resolution of the American Congress on the 19th

of March, 1866, demonstrates likewise the importance which the United States Government attaches to the construction of the Honduras Line:

"The reader who follows the course of the surveyors, naturalists, and geologist from the capacious, safe, and excellent harbor of Puerto Caballos, through regions remarkable for their salubrity, fertility, great variety of climate and productions, and valuable mineral resources, to the waters of the splendid harbor of La Union (Bay of Fonseca), cannot but regret that capitalists have not found it to their interest to carry out one of the most promising and one of the least embarrassing enterprises of the day."

"The Line of Railway has been carefully selected and surveyed by Mr. Trautwine (late Engineer-in-Chief of the Panama Railway), and an efficient Staff; and a contract has been entered into for the construction of the whole line, with Stations and Rolling Stock, for a stipulated sum of about £8,000 a mile, including every outlay, and the works are to be proceeded with in sections.

"From time to time, as the installments of the present loan are received, the proportion to be applied to the construction of the first section of the Railway will be handed to and held by trustees, in trust to pay the contractor the installments on his contract, as certified by the Government Engineer. The balance of the Loan will be applied in clearing the forests, and in payment of engineering and other incidental expenses.

"The Interest and Sinking Fund are specially guaranteed by a first charge upon the intended Railway itself and its revenue, and also by a first mortgage upon the whole of the domains and Mahogany forests of the State of Honduras, which, according to to official report, are of immense value.

"It is arranged that the whole of the products of the above mortgaged State Domains and Forests shall be consigned direct to London by the Honduras Government, to Messrs. Bischoffsheim and Goldschmidt, who will pay over the proceeds of the sales towards the Annual Interest and Sinking Fund, and the construction of the remaining section of the Railway.

"It has been further arranged in the Contract, that, as soon as any portion of the Railway is completed, the Contractor shall bring down to the Terminus, free of charge, by the return empty wagons, any produce of the Government Forests and Domains that may be ready for shipment to England.

"Beginning at the harbor of Puerto Caballos, on the Atlantic, the Railway will proceed over the table-land of Honduras, in a line of 230 miles, to the Bay of Fonseca, on the Pacific.

"The ports at either end are spacious, safe, and easily accessible for the largest ships.

"The steaming distances from Liverpool to San Francisco, touching at Jamaica, are: by way of Panama, 7,980 miles; Nicaragua, 7,720 miles; Tehauntepec, 7,740 miles; Honduras, 7,320 miles.

"The distance between New York and San Francisco, by Panama, is 5,224 miles; by Nicaragua, 4,700 miles; by Tehauntepec, 4,200 miles; by Honduras, 4,121 miles—a saving by way of Honduras, as compared with Panama, the only line on which a Railway is already constructed, of 1103 miles.

"The difference in actual distance, coupled with the superiority of ports, the facilities of embarkation and disembarkation, and the connection with the American coast lines, will effect a saving in time, as compared with the Panama Route, of no less than five days between the Atlantic and Pacific ports of the United States.

"This line will afford the easiest, safest, and speediest route between Great Britain and British Columbia; it will also afford the increased facilities of first-class ports for the establishment of speedy intercourse with Australia and New Zealand, and will bring Jamaica, Belize, and other British Possessions in the West Indies, into the direct line of communication.

Last year the dividend paid by the Panama Company was at the rate of 24 per cent per annum on a capital of £1,600,000, in addition to a bonus of 40 per cent from accumulated profits. The Honduras Line will, in all probability, return as much profit as the Panama Line, if not considerably more.

"Sufficient of the proceeds of the present issue will be applied to the construction of the first section, from Puerto Caballos to Santiago. This section will enable the exportation of the Mahogany, etc., to take place, the means of transport now existing being too expensive to be renumerative. Careful estimates have satisfied the Honduras Government that the surplus revenue of the State Domains and Forests will be amply sufficient to complete the whole line, without any further issue of stock; but in case it should be found advantageous, on account of increasing traffic, to accelerate the opening of the Railway from sea to sea, by raising more money,

further Stock will be issued for the construction of the remaining sections of the Railway.

"The several contracts and other documents can be inspected at the office of Messrs. Baxter, Rose, Norton and Company, Solicitors No. 6, Victoria Street, Westminister.

"Applications for the Loan will be received from Monday, the 11th of November, to Friday, the 15th of November, by the London and County Bank, 21 Lombard Street, and Branches, where Prospectuses and Forms of Application can be obtained; and in Paris, by Messrs. Bischoffheim, Goldschmidt and Company, 26, Rue de la Chaussee d' Antin. Payment on application for the Loan can also be made at the Bank of France and Branches."

Second

Honduras Railway Loan,

Paris, 1869.

HONDURAS LOAN OF 207,509 BONDS OF 300 FRANCS EACH. PARIS, 1869.

INTER-OCEANIC RAILWAY CONNECTING THE ATLANTIC WITH THE PACIFIC.

SECURED LOAN TO THE GOVERNMENT OF HONDURAS.
(CENTRAL AMERICA.)

Subscription, 207,509 Bonds.

Price of the Bonds, 225 francs, payable as follows:

25 francs on subscription	With the right of paying one
50 francs on allotment	or more of these installments in
50 francs on 1st June (1869)	advance, and receiving a dis-
50 francs on 1st July (1869)	count at the rate of 6 per cent
50 francs on 1st Aug. (1869)	per annum.

Returns. Repayment. Participating Shares.

"Interest. Twenty francs a year, paid half-yearly on the 1st of March and the 1st of September, at Paris, Brussels, Antwerp, Geneva, in cash without any tax or deduction, and also at Berlin, Hamburg, Amsterdam, Frankfort, Genoa, New York, at the rate of the day. The first coupon is due on the 1st of September next.

"Repayment. At par in seventeen years by half-yearly drawings before a Notary at Paris; the first drawing will be paid in cash on the 1st of September, without any tax or deduction whatever.

"Participating Shares. Each Bond will be replaced as soon as it is drawn by a Participating Share, which will entitle the owner, after the repayment of the Loan, and during a period of fifteen years, to a proportional share in the third part of the revenues of the Line.

"This participation is estimated at a minimum of 50 francs per annum.

"As the periods of the different payments and profits since the first of March last reduce the price of the subscription to about 220 francs, the produce of the debentures, taking into consideration the premium of repayment, exceeds 12 per cent, without reckoning the value of the Participating Shares.

GUARANTEES FOR THE DEBENTURES.

(a) Mortgage on the Railway and on its Revenue.

(b) Mortgage on the domains and forests of the State, of which the annual revenue, according to the official report of the engineers, amply exceeds the sum necessary for the regular payment of interest and redemption.

(c) Convinced of the commercial and political importance of the Inter-Oceanic Honduras Railway, the Governments of France, England, and the United States have, by international treaties, specially guaranteed the inviolability and neutrality of the undertaking, from the opening of the Line.

(d) A Commission has been appointed to superintend the employment of the Loan, which is to be exclusively devoted to the completion of the Line already in process of construction.

This Commission is composed of:

His Excellency, M. V. Herran, Officer of the Legion of Honor, President (O.); and MM. L. Pelletier, Chevalier of the Legion of Honor, an eminent merchant (C.).

R. Bischoffsheim.

M. Scheyer.

(e) The execution of the Line is entrusted, by contract, to Messrs. Waring Brothers and MacCaudlish, of London.

Distance from New York to San Francisco:

By way of Panama .....9,730 kilometres.
By way of Honduras .....8,074 kilometres.

Thus the Honduras route saves.....1,656 kilometres.

"The proceeds of the Panama Line are well known. The annual traffic is about 200,000 passengers, and merchandise valued at over a thousand million francs.

(f) The statement of the Sinking Fund of the Loan, the reports of the Engineers, the International Treaties, are deposited in the Chancellor's Office of the Legation, Rue de la Chaussee d' Antin, where the public may inspect them.

V. HERRAN,
Minister Plenipotentiary of Honduras.

"The subscription will be open on Wednesday the 19th, to Friday the 28th of May, from eight in the morning until five in the evening, in the following towns:

Paris. At the Chancellor's Office of the Legation, and of the Consulate General of Honduras, 10 Rue de la Chaussee d' Antin; at Messrs. Dreyfus, Scheyer and Company, Government bankers, Rue de la Grange Bateliere 16.

"Subscription may be paid at all the branches of the Bank of where the Government has deposited the provisional and definitive shares of the Loan.

"The subscription will also be opened at Brussels, Hanover, Berlin, Hamburg, Amsterdam.

"Subscribers who wish to pay up beforehand may send at once the whole sum, 223 francs, 90 cents per share, less discount, and the definitive shares will be delivered or sent to them.

"After the subscription is completed, even if before the 25th of May, no fresh subscription will be taken."

Third

Honduras Railway Loan,

London, 1870.

HONDURAS LOAN OF TWO MILLION FIVE HUNDRED THOUSAND POUNDS. LONDON, 1870.

1870.

"Honduras 10 per cent Government Railway Loan £2,500,000.

"In 25,000 Bonds of £100 each, bearing 10 per cent Annual Interest, payable half-yearly, viz., on 1st of January and 1st of July.

"Issued at 80 per cent, and to be redeemed at par, in Sterling, within 15 years, by Yearly Drawings, on the 31st of December in each year, by means of an accumulative Sinking Fund of 3 per cent per annum.

"The first drawing to take place on the 31st of December, 1870.

"The installments to be paid as follows:

15 per cent. on Allotment.
10 per cent. on 1st. of August.
10 per cent. on 1st. of September.
15 per cent. on 1st. of October.
15 per cent. on 1st. of November.
15 per cent. on 15 of December, when definitive Bonds, with a Coupon of £5 payable on the 1st of January attached, will be given in exchange for scrip.

80 per cent.

"Interest will date from the 1st. of July.

"The installments may be anticipated at any time when an installment falls due, under discount at the Bank of England rate.

PROSPECTUS.

"His Excellency, Senor Dòn. Carlos Gutierrez, Minister Plenipotantiary of the Government of the Republic of Honduras to the Court of St. James, being authorized by full powers, dated

the 14th. of March, 1870, to raise for his Government a Loan of Two Millions Sterling net, for the completion from sea to sea of the Inter-Oceanic Honduras Railway, has instructed the London and County Bank to receive applications for same.

"The Loan will be represented by Bonds to bearer of £100 each, bearing interest, until redeemed, at the rate of 10 per cent per annum, payable half-yearly on the 1st. of January and the 1st. of July in each year, at the London and County Bank.

"The whole Loan will be redeemed within 15 years by an accumulative Sinking Fund of 3 per cent per annum, to be applied by annual drawings, the said drawings to take place on the 31st. of December in each year, in the presence of the Honduras Minister in London, a representative of Messrs. Bischoffsheim and Goldschmidt, and a Notary Public, and the Bonds so drawn will be paid within one month thereafter.

"This Loan is raised to complete the Inter-Oceanic Railway, and to place the Line from sea to sea in thorough and efficient working order. As in the case of the previous Loan, the proceeds of the present Loan will be paid into the hands of Trustees appointed for that purpose.

"The entire Railway and its revenues is mortgaged to the Bondholders of all denominations, and the proceeds of the State domains will be applied in a like manner.

"The first section is contracted to be finished next November. Messrs. Waring Brothers and MacCaudlish have undertaken, under heavy penalty, to complete the second section at the end of 1871; and a new contract has been signed with them to complete the entire Railway from Puerto Caballos, on the Atlantic Coast, to the Bay of Fonseca, on the Pacific, and to deliver it over in efficient working order in the Autumn of 1872.

"The Railway is under the protection of the British Government by a Treaty, which declares:

"In order to secure the construction and permanence of the route or road herein contemplated, and also to secure for the benefit of mankind the uninterrupted advantages of such communication from sea to sea, Her Britannic Majesty recognizes the rights of Sovereignty and property of Honduras in and over the line of the said road, and for the same reason guarantees, positively and efficaciously, the entire neutrality of the same. And when the

proposed road shall have been completed, Her Britannic Majesty equally engages, in conjunction with the Republic of Honduras, to protect the same from interruption, seizure or unjust confiscation, from whatsoever quarter the attempt may proceed."

Treaties signed by the Honduras Government with France and the United States contain the same provisions.

"A general Bond, executed by His Excellency, Don. Carlos Gutierrez, on behalf of the Government of Honduras, will be deposited at the Bank of England for security of the entire Loan, and the Definitive Bonds of this Loan will be signed by His Excellency, Don Carlos Gutierrez, on behalf of his Government, and countersigned by Messrs. Bischoffsheim and Goldschmidt, agents of the Government in England.

"Applications for the Loan will be received by the London and County Bank, 21, Lombard Street, and Branches, where Prospectuses and Forms of Application can be obtained.

"London, June 20th, 1870."

Honduras Interoceanic Railway Company, Ltd.

1873.

MEMORANDUM OF ASSOCIATION OF THE HONDURAS INTER-OCEANIC RAILWAY COMPANY (LIMITED). 1873.

---

1. The name of the Company is the Honduras Inter-Oceanic Railway Company, Limited.

2, The Registered Offices of the Company will be in England..

3, The objects for which the Company is established are the following:

(A) To obtain from the Government of the Republic of Honduras and accept concessions or grants of all or any of the following Railways, works, lands, rights, powers and privileges, viz:

(a) Such portion of the Honduras Inter-Oceanic Railway as is already completed and open for traffic, or is in course of construction, together with all the Stations, houses, buildings, wharves, quays, jetties, and appurtenances thereto belonging or attached, or forming part thereof, together with all the rolling stock, plant, machinery, rails, materials, stores, equipments, and other effects belonging to the Government, and used, or intended to be used, for the construction, equipment, maintenance or working of the said Railway with its appurtenances, or for any of the purposes thereof.

(b) The land required for the completion of the said Railway, from the Atlantic Ocean to the Pacific Ocean, with all necessary and proper wharves, quays, jetties, and other conveniences,

(c) Such lands, adjoining or near to the said Railway, as may be agreed on between the said Government and the Company, with such exclusive rights of cutting and exporting timber grown thereon free of duty and other charges, as may also be agreed on.

(d) Such of the mines belonging to the Government of Honduras, and at present unallotted, and at the disposal of the State, as may be agreed on between the Government and the Company, subject to such royality (if any), whether fixed or fluctuating, as may also be agreed upon.

(B) To construct, complete, maintain, equip, and work the said Railway, and to work, let, manage, and grant licenses for the working of all or any of the Company's lands, land rights, timber, mines and mineral rights, and to export, sell, and dispose of the produce thereof.

(C) To sell, demise, or otherwise dispose of, all or any of the lands, mines, rights and privileges, or other property of the Company (including the said Railway, with its appurtenances).

(D) To acquire any other concessions, grants, or privileges from the Government of Honduras, or any other foreign Government, and to enter into any contracts with any Government, Corporation, or persons, for any of the purposes of the Company.

(E) To obtain the incorporation of the Company as a Societe Annonyme, or Sociedad Anonima, according to the laws of the Republic of Honduras, or any Foreign State, relating to joint stock companies.

(F) To do all such other things as are incidental or conducive to any of the foregoing purposes.

4. The liability of the members is limited.

5. The capital of the Company is £5,347,720, divided into 30,427 Shares of £100 each, to be called A Shares; 177,135 Shares of £12 each, to be called B Shares; and 8,970 Shares of £20 each, to be called C Shares.

The Shares may be issued as fully paid up to the holders of the bonds of the Honduras Government Railway Loans, issued in London, in 1867 and 1870, or the loan issued in Paris in the year 1869, or of the Federal Debt of the State of Honduras issued in 1867, in exchange for their bonds in the proportion of one £100 share for every £100 in either of the said Loans, and so in proportion for bonds of any larger or lesser denominations. The Company may accept from any of the Subscribers of this Memorandum bonds of the said Honduras Government loans of 1867, 1869 and 1870, or of the said Federal debt in or towards payment of the shares subscribed for by them respectively at par."

APPENDIX TO THE MEMORANDUM OF ASSOCIATION OF THE HONDURAS INTER-OCEANIC RAILWAY COMPANY, LIMITED.

ISSUE OF SHARE CAPITAL FOR CONVERSION.

THE HONDURAS INTER-OCEANIC RAILWAY COMPANY, LIMITED.

INCORPORATED UNDER THE COMPANIES ACTS, 1862 AND 1867.
ISSUE FOR CONVERSION.

The Share Capital of the Company amounts to the sum of £5,347,720, to be represented by the conversion of the Bonds held in the existing Honduras Loans.

29,638 "A" Shares of £100 each £2,963,800
8,970 "C" Shares of £20 each 179,400

To be exchanged for the outstanding Bonds of the 1867 and 1870 Loans.

177,135 "B" Shares of £12 each £2,125,620

To be exchanged for the Bonds of the 1869 Loan, French Issue.

789 "A" Shares of £100 each £78,900

To be exchanged for the outstanding Bonds of the Federal Debt.

TRUSTEES.

Sampson Copestake, Esq. (Messrs. Copestake, Moore, Crampton & Co.).

Alderman Sir Thomas White, Ex-Sheriff of London and Middlesex (with power to add to their number).

DIRECTORS (Pro Tem.):

The Committee of Honduras Bondholders
(Specially re-appointed for the purpose).

BANKERS.

Messrs. Glyn, Mills, Currie & Co., 67, Lombard St., E. C.

AUDITORS.

Messrs. Deloittee, Dever, Griffith & Co., 4, Lothbury, London.
Messrs. James and F. Ford, 76 and 77 Cheapside.

JOINT SOLICITORS.

John Tucker, Esq., 28, St. Swithin's Lane, London, E. C.

Augustus Beddall, Esq., Baltic Chambers, 108, Bishopsgate St., E. C.

CHIEF ENGINEERS.

Charles Seymour, Esq., M. Inst. C. E. (New York), Chief Engineer of the Madisonville and Bowling Green Railway, the Henderson Nashville Railroad, the Edgefield and Kentucky Railroad, etc., etc., and formerly the Chief of Staff on the Atlantic and Great Western Railroad.

SECRETARY.

C. F. Denny, Esq.

OFFICES.

In London, 4, Westminister Chambers, Victoria Street, S. W.
In Paris, 2, Rue Drouot.

PROSPECTUS.

First issue of 20,000, 10 per cent First Mortgage.
Debenture Bonds of £100 each at Par,
Being part of 25,000 which the Company have power to issue.

THE HONDURAS INTER-OCEANIC RAILWAY COMPANY, LIMITED.

DEBENTURE CAPITAL £2,500,000.

"It is proposed to issue this Capital in Bonds of £100 each, bearing interest at 10 per cent per annum.

"The Bonds to be redeemed at par by Annual Drawings, and by the operation of a Sinking Fund, in 25 years.

"The first Drawing to take place on the 31st. of December, 1876, and the drawn Bonds will be paid on the next succeeding 15th day of January, when the interest thereon will cease.

"The Bonds will be issued to bearer, with Coupons, payable half-yearly on the 1st. of January and the 1st. of July in each year, at the Offices of the Company.

"The first payment of interest to take place on the 1st. of July, 1874."

The President of the Republic of Honduras to the Inhabitants thereof.

Notice is hereby given: That the Sovereign Constitutent Congress has decreed as follows:

The Sovereign Constitutent National Congress of the Republic.

Considering that the fresh negotiations entered into by the Minister Plenipotentiary, Senor Don. Carlos Gutierrez, and the Special Commissioner, Dr. Don. C. E. Bernhard, with the Limited Company for the construction of the Honduras Inter-Oceanic Railway, remove the great difficulties presented by the system adopted for the completion of that undertaking; and considering that they tend to promote one of the greatest interests of the Republic, the Assembly, with the respective documents before it.

DECREES.

Art. 1. The Contracts concluded in London, on the 12th. day of July of the present year, by the aforesaid Messrs. Gutierrez and Bernhard, with the Limited Company, is approved, on the same terms as it was approved by the Provisional Government of the Republic, for the continuation and completion of the works of the Inter-Oceanic Railway.

Art. 2. In order that the aforesaid Contract may have full effect, and Honduras be bound to the Contracting Company, it is indispensable that the members of the latter should authorize the deed of the aforesaid Contract by the signatures of their legal representatives, in the form and according to the regulations prescribed by the laws of Great Britain for the execution and fulfillment of Contracts of this nature.

Given at Comayagua, in the Sessions Hall of the National Constitutent Congress, on the 24th of December, 1873.

(Signed) R. MIDENCE, Deputy, President.
" F. HERNANDEZ, Deputy, Secretary.
" PEDRO RIVERA BUSTILLO, Dep., Sec.

Therefore, let this be promulgated and printed.

(Signed) CELEO ARIAS.

JEREMIAS CISNEROS, Minister for Foreign Affairs.

Comayagua, December 25, 1873.

EXTRACTS

From the Bluebook, Containing the Report Issued by the

Select Committee of the British Parliament,

1875.

The Parliamentary Select Committee said, on the 24th page of their report:

"It will be seen that Honduras has thus become indebted in respect of principal in a sum of £5,990,108 (approximately), in return for which she has engaged to pay £695,700 annually, in periods varying from fifteen to seventeen years. The interest (apart from Sinking Fund) now in arrears amounts to £1,230,164. Bonds of the nominal value of £692,879 have been paid off or cancelled, leaving £6,527,393 now due for principal and interest. *In return for this liability Honduras has secured an abandoned section of a line of railway fifty-three miles in length, for which the contractors have received £689,745.*"

The Parliamentary Committee utter these significant words on page 46 of the report:

"Your committee do not dwell on the transactions by which such enormous sums have been abstracted from the Honduras loans, and appropriated among those who were entrusted with its management. Such acts have no more to do with foreign loans than with any other transaction by which the money of one person comes into the possession of another, and is converted to the use of the depositaries. A remedy for such proceedings ought to be found in the tribunals of the country."

Bondholders' Proposition

For the Settlement of the External Debt of Honduras,

1903.

Tegucigalpa, January 28, 1903.

To the Hon. Council of Ministers of Honduras,
Tegucigalpa.

Gentlemen:—As the representative in Honduras of the Corporation of Foreign Bondholders, which, in the name of the Bondholders, is charged with the arrangement of the Foreign Loans of Honduras of 1867, 1869 and 1870, I have the honor to inform you that following the instructions I have received from the President last year, the Corporation, with the aid of the Squier Syndicate, has been able to give a solution to the difficulties that until this date have surrounded this matter.

I have the honor to submit herewith for your consideration a project of law based in an agreement made in London, England, on December 4th, 1902, between the Corporation of Foreign Bondholders and the Squier Syndicate, of New York. This project of law includes the proposal for an arrangement, which I do not doubt will be well received by the Government of Honduras, since its terms are extremely liberal for Honduras, and it stipulates the completion of the Inter-Oceanic Railway—a most important work for the Republic.

You will see that it also proposes to cancel the foreign loans of Honduras at the rate of £200,000 per annum, in exchange for a payment by Honduras to the Foreign Bondholders of the Railway and other properties mortgaged to them, so that in twenty-six years the Foreign Debt of Honduras will be cancelled.

The first four annual installments of £20,000 each can be at present easily payed by the country, and the surplus at the end of each period of 4 years will be more than balanced by the increase of the revenue of the country due to the great advance of trade and progress in Honduras, which will be brought about by the construction and operation of the Inter-Oceanic Railway.

The Squier Syndicate has made possible the projected arrangement with the Bondholders through a payment to the Corporation, as purchase value of the Inter-Oceanic Railway, at the rate of £2.10—in cash for each £100 in Bonds presented for redemption. The amount required for the redemption of the total number of Bonds at the rate of £2.10 is $650,000 gold, to be paid immediately upon the completion of the arrangements.

It is a pleasure for me to inform you that the President of the Squier Syndicate, Mr. Frank Squier, is a brother of E. Geo. Squier, who dedicated so many years of his life to the advancement of the interests of Honduras, being instrumental for the devolution of the Bay Islands to this Country.

Finally, I can say that the works of the Northern Railway of Guatemala, having been started again formally, it is of great importance to establish the works of the Inter-Oceanic Railway of Honduras before completion arises in the neighboring Republic.

With the highest consideration, etc.,

(Signed) W. J. BAIN,
Representative of the Corporation of
Foreign Bondholders.

PROJECT OF LAW FOR THE SETTLEMENT OF THE FOREIGN LOANS, WHICH THE NATIONAL CONGRESS OF HONDURAS SHALL ISSUE.

Article 1. Subject to the provisions of Article 10, of this, the State absolutely cedes and assigns to the holders of Bonds of the Loan of the 10% (1867), of the Loan of 6 2/3% (1869), and of the Loan of 10% (1870)—which hereafter will be called Railway Loans—the Inter-Oceanic Railway of Honduras, from Puerto Cortes, on the Atlantic Coast, to the Bay of Fonseca, on the Pacific, with all its equipment and revenues, and also all the domains and forest of the State with all their products and productions, such as Mahogany and other woods, etc., as they are described in the concessions of said Railway, granted in the years of 1853 and 1865, and assigned and mortgaged for security of said Railway Loans on the terms of their issue, and also said Concessions and all their rights, in trusts, benefits and advantages by them respectively granted.

Article 2. The Cession and assignment made in the preceding article are made with the object that the holders of Bonds of said Railway Loans may transfer or invest the same, and all property, concessions, rights, interests, benefits and advantages in them involved or by them described to or in the Squire Syndicate, of New York (which has entered into agreements with the Government for the completion by its appointees, or concessionaires, of

said Railway), in exchange of the payments or security for the payments by it to said Bondholders, prescribed by an agreement made in London, the fourth day of December, of 1902, between the Syndicate and the Corporation of Foreign Bondholders, the latter acting jointly with the Committee of Bondholders of the Railway Loans of the State of Honduras, and in representation of said Bondholders.

The State by these presents agrees to and approves the absolute investment in the Squier Syndicate of all the rights of the holders of the Railway Bonds at the time and in the cases in them mentioned and established.

Article 3. For the Amortization of the Bonds of the Railway Loans and of the 25% Loan of 1867, the Government will pay to the Agents of the Bondholders in Honduras the following amounts, as follows:

(1) The sum of £20,000 in each one of the first four years, which will begin and contains from the first day of July of 1903.

(2) The sum of £24,000 in each one of the next following four years; and in the fifth and following years equal annual sums increased by £4,000, after each period of four years until it amounts to £40,000 in the twenty first year and continuing so and until and while the amortization at a rate of £200,000 per annum is accomplished according as is provided for in the following Article.

Article 4. The sum above mentioned shall be applied by said Corporation for the redemption of the said Loans in such manner that Bonds to the amount of £200,000 of one or more of said Loans with all their unpaid coupons be cancelled in each year and delivered to the Government or its representative in London or destroyed by incineration or otherwise as the Government may order.

Article 5. The Corporation will be charged with the duty of obtaining the Bonds and amortize them by offers of purchase or by drawings. The amortization will be effected as soon as possible after the funds are deposited every six months according to the plan that the Corporation shall devise and be submitted to and approved by general meeting of Bondholders which the Corporation

will convene at London. The aforesaid plan shall make provision for the repayment to the Corporation of all expenses for all facts and external negotiations and for the execution of the arrangement. It must establish also the details to carry through the operation, always subject to the condition that Bonds to the amount of £200-000 be annually redeemed as above prescribed.

Article 6. For security of said annual payments the State assigns and mortgages all the Customs Revenues of the Republic, and said annual payments shall be a first and preferential obligation over any other payment. To this effect the collection of Customs of Puerto Cortes is authorized and ordered irrevocable by this law, and without necessity of new order from the Government to pay every week to the agent of the Bondholders in Honduras, who shall be appointed by the Corporation, the fifty secondth part of the annual installment then in course, according to Article 3, of this law, besides (as per account rendered by the Agent from time to time) the expenses made by him for remittances to London and the exchange expenses. If at any time the income of the Custom House of Puerto Cortes were not sufficient to provide the amount required, the weekly payment will be completed from the Custom House designated by the Government in accord with the Corporation of Foreign Bondholders. The Agent will remit to the Corporation every two weeks the funds collected.

Article 7. If in any year the Customs Revenues give any surplus after providing the payment in gold of the annual sums in Article 3, and after setting aside $1,000,000 for the expenditures of the Government, 25% of such superabit will be paid by the Government to the Corporation and distributed as an additional payment among the Bondholders, as shall be determined in the plan mentioned in Article 5.

Article 8. The aforesaid payments will continue faithfully and punctually, in peace or in war, and shall also be free of taxes of any charge by the State.

Article 9. The Government of Honduras will invite the Governments of Great Britain and the United States to take a formal note of the arrangements effected by this law.

Article 10. The arrangement herein made will begin to be in force and may be operative and binding on the State and the Bondholders as soon as they are accepted by a revolution at a general

meeting of the Bondholders, which the Corporation of Foreign Bondholders will convene according to the laws and by-laws of said Corporation, and which will take place in London, and when the said resolution be approved then all the rights of the holders of the Railway Loans, either by the obligation of the original mortgage or the security given by the Bonds of said Loans, or by Article 1 of this law, and by the same ceded and assigned, or that is expressed to be so, will be absolutely invested in said Squier Syndicate, as its own property and free of any pretension or claim on the part of the Bondholders.

AGREEMENT.

Agreement made this 4th day of December of 1902, between the Squier Syndicate, of New York (hereinafter called "The Syndicate"), of the one part, and the Corporation of Foreign Bondholders of London, acting in this in accord with the Committee of the holders of Bonds of the External Loans of Honduras, say of the State of Honduras, and as representative of the holders of said Loans (hereinater called the "The Corporation" and the "Committee" respectively), of the other part.

Whereas, the external loans of the State of Honduras are the following: Loan of 5% of 1867, of 10% of 1867, of 6 2/3% of 1869, and of 10% of 1870—the three last ones named hereinafter "Railway Loans."

Whereas, the holders of Bonds of said external loans and the Corporation and Committee as their representatives, respectively, are desirous to arrive at an arrangement in respect to the Claims with the Government of said State of Honduras, and they have been and now are negotiating with said Government with the end of obtaining this object.

Whereas, the Bonds of the Railway Loans are especially guaranteed by mortgage or charge on said Railway and domains and forests of the State and other properties.

Whereas, the subject of this agreement has been under the study of the Committee, which gave its approval by resolution passed on the 20th day of November of 1902.

Therefore, by the consideration hereafter consigned it has been agreed between the Syndicate on one part and the Corporation on the other part, to the following:

1. The Corporation will use its best efforts to carry through an arrangement about the foreign loans and for an agreement with the Government on this subject, and for the approval by Congress of the State of Honduras, of a law for the settlement of the external debt of the State, on the terms consigned in the project of law contained in the draft attached, with such modifications (if any), as the Syndicate and the Corporation may mutually approve; and the Syndicate (as far as in its discretion may reasonably do and when the Corporation may request from it), will co-operate with the Corporation in its efforts to obtain the aforesaid object.

2. The Syndicate will use its best efforts for obtaining from the Government of Honduras, and in case the Government deemed proof of the ability or capacity of the Syndicate, or its Agents, or cessionaires necessary to complete said Railroad within a reasonable time, and will use too its best efforts to make or carry through a definitive and binding agreement with the Government (under the condition of the approval of the law referred to in the Clause 1, and the approval of the Resolution of the Bondholders in a General Meeting, and mentioned and prescribed in the next Clause 3, which must be held simultaneously and immediately before or soon after the preceding clause), for the completion of said Railway within a reasonable time and on account of the Syndicate, its Agents or cessionaires; and the Corporation (as far as it is reasonably able in its discretion, if the Syndicate demands it), will co-operate with the Syndicate in its efforts to make or carry through the proposed arrangement.

3. When the law mentioned in Clause No. 1 be approved, and the arrangements mentioned in Clause No. 2, for the completion of said Railway be terminated and delivered to the Syndicate, and the Syndicate has put in the hands of the Corporation the security or guaranty mentioned in the next following Clause No. 4, then the Corporation shall convene, as soon as possible, a General Meeting of Bondholders of the Foreign Loans, in conformity with its rules and regulations, which will be held in London, with the object of approving a resolution accepting the arrangement provided by said law and by this agreement; and shall also invite the Bondholders to deposit their Bonds with the Corporation for the purpose of carrying out said arrangement; and the Corporation and the Committee shall recommend and employ their best efforts to obtain its approval.

4. When the law mentioned in Clause 1 be approved, and the arrangement mentioned in Clause 2 for the completion of said Railway be terminated, and before the meeting mentioned in Clause 3 takes place, it is agreed that the Syndicate will deliver to the Corporation a security or guaranty by a Bank or firm established in London to the satisfaction of the Corporation (subject to the approval of the resolution by a General Meeting, as before stated) to make the following payments to the Corporation on account of the Bondholders of the Railway Loans in this form:

(1) The sum of £2.10 for every £100 Bonds of said Railway Loans to be deposited with the Corporation in acceptance of said settlement, within three calendar months after the issue by the Corporation of public notice inviting such deposit.

(2) The sum of £2. for every £100 Bonds of said Railway Loans deposited, as has been already said, after the expiration of three calendar months, and before the expiration of three calendar months, of the first publication of said notice.

(3) The sum of £1.10 for every £100 Bonds of said Railway Loans to be deposited as hereinbefore stated, at the expiration of six calendar months and before the expiration of one year since the publication of said notice.

5. With the resolution of the Bondholders in General Meeting aforementioned and established in Clause 3, being approved, all the rights of the Bondholders of the Railway Loans and also the first mortgage or guarantee given for the said Railway Bonds or by said law to and upon said properties of the Railway and any other properties, are to be transferred absolutely to the Syndicate as its own property, released from all claims by or from the Bondholders, and the Syndicate will be authorized to take possession of said Railway and properties accordingly, and the Corporation will withdraw its claim in behalf of the Bondholders, and at any time after at the request of the Syndicate, after the approval of said resolution, will deliver to the Syndicate proof sufficient and adequate .duly authorized) of the approval of said resolution, as has been stated and mentioned at and established in Clause 10, of the Project of Law consigned in the minute attached with the

certificates and copies duly drawn of said resolution, and the rules and regulations of the Corporation of Foreign Bondholders, showing that said resolution has been duly approved and in conformity with them.

6. If this agreement does not become effective on or before the 30th day of June of 1903—or at least on that date— one of both parties may, by notice in writing to the other, and sent by mail to their respective offices in London and New York, terminate this agreement and by that fact would be ended, and the rights of the Bondholders will remain unaffected and in full vigor as if this agreement was never celebrated. Taking into consideration always that if this agreement is not made effective on or before the 30th day of June of 1903, due directly or indirectly to War, Revolution, or any circumstance which may be considered as *"force major,"* then the period during which the same has not been terminated under the option and benefit of what it contains it will be considered extended for such time as shall correspond with the time of the continuation of the circumstances which had interfered in this agreement not being effected; such period and the question of efficiency in case of dispute between the Corporation and the Syndicate will be decided by Arbitration in England, under the provisions of the Arbitration Act of 1889.

(Signed) AVEBURY,
President of the Corporation and the Committee.

(Signed) ALBERT E. TURNER,
Agent for the Squier Syndicate.

Authenticated by James P. Cooper, Secretary of the Corporation of Foreign Bondholders.

Approved by the Squier Syndicate, New York, on the 15th day of December, 1902.

(Signed) D. BROOKS GARNSEY, Secretary.
FRANK SQUIER, President.

WITNESSES:

(Signed) MERVIN S. NEAR, Jr.,
New York County, N. Y.

Official Record,

1903.

Official Record, 1903.

PROJECT "SQUIER SYNDICATE."

ARCHIVES OF FOMENTO.

ADMINISTRATION OF PRESIDENT MANUEL BONILLA.
1903.

No. 1. "A"—April 25th—W. J. Bain, Agent of the Bondholders to the President Manuel Bonilla.

"I have the honor to enclose to Your Excellency the Project of the Law, traced by the Bondholders, for the extinction of the Exterior Debt of the Republic, including the Federal Debt guaranteed by the products of the Customs of Amapala."

"Furthermore, said arrangement is combined with an agreement between 'The Squier Syndicate' and the Corporation of Foreign Bondholders, by the terms of which they pay £2.10. in cash for each £100 of Bonds and promise to complete the Railway."

"This 'Project for a Law' has been approved by the Government of H. B. M., and as the basis is so favorable for the Government of Honduras, no doubt that it will be well supported by Your Excellency."

I am, Your Excellency's etc., etc.

No. 1 "B." Project for a Law for the arrangement of the Exterior Loans that the Congress of the State of Honduras shall emit. Articles 1 to 10.

No. 2. Project of the arrangement of the Foreign of Hondu- Honduras and construction of the Inter-Oceanic Railway, as submitted by Mr. W. J. Bain, the 1st of May, 1903.

Explanation of the generous conditions, with a Table demonstrating the cancellation of the Debt in 27 years.

No. 3. Agreement made the 4th of December of 1902, be-

tween the "Squier Syndicate" of New York and the Corporation of Foreign Bondholders of London.

Preamble and 6 Articles.

(Signed) AVEBURY,
President of the Corporation and
Chairman of the Committee.

" BY SQUIER SYNDICATE.
Albert Turner, Agent.

" FRANK SQUIER, President.
" D. BROOKS GARNSEY, Secretary.

Witnesses to the signatures of the Rt: Hon: John Baron Avebury and Albert Turner.

(Signed) JAMES P. COOPER,
Secy: of the Corp: of Foreign Bondholders.

Witnesses to the signatures of Frank Squier and D. Brooks Garnsey, 16th December, 1902.

(Signed) MERVIN S. NEAR, Jr.,
New York County, N. Y.

No. 4. Agreement of the 4th of December, 1902, between the "Squier Syndicate" of New York, and the Corporation of the Holders of Bonds, in English. Also the Project of Law.

No. 5. Agreement proposed between the Government of Honduras, in C. A., and the "Squier Syndicate" they acting under the provisions agreement dated in London, December 4th, 1902, with the Corporation of Bondholders, simultaneously, as supplementary agreements. Arts. 1/22.

No. 6. Communication of Solomon Ordonez, General Minister to W. J. Bain, over his powers, May 3, 1903.

No. 7. Communication of Solomon Ordonez, Minister General to W. J. Bain, May 19th.

No. 8. Mr. Bain to the Min. General, May 14, 1903.

No. 9. Mr. Bain to the Min. General, May 19, 1903.

No. 10. The General Minister to the National Congress, with all the documents, May 23, 1903.

No. 11. W. J. Bain to President Bonilla, May 25, 1903.

No. 12. Resolution of National Congress that returns the business, May 28, 1903.

No. 13. W. J. Bain to Sotero Barahona (personal), June 12, 1903.

No. 14. W. J. Bain to Mr. President, June 2, 1903, with copy of a letter to Mr. Barahona.

No. 15. W. J. Bain and E. A. Turner to Mr. President, June 6, 1903, refers to an omission in the translation of the Project of Law, Art. 2.

No. 16. Powers from W. J. Bain, as representative of the Bonholders, on the 5th February, 1903.

United States' Protest,

1903.

UNITED STATES PROTEST.

TELEGRAM.

Guatemala, June 3, 1903.

Minister of Foreign Relations, Tegucigalpa:

My Government disproves the terms of the proposal of the Squier Syndicate.

I am opposed that an American corporation shall be the medium of celebrating an arrangement between Honduras and the Foreign Bondholders, with respect to a debt relative to which is alleged grave frauds, illegalities and injustice.

I beg the honor of a reply by telegraph to this message.

(Signed) LESLIE COMBES,
Minister of the United States.

Official Report

to

Congress,

1904.

OFFICIAL REPORT TO CONGRESS.

Extract of memorial presented to the National Congress by the Secretary of State in the Department of Improvements and Public Works for the years 1902 and 1903.

Under the date of April 25th, Mr. W. J. Bain, as agent of the Bondholders of the Foreign Debt of Honduras, presented to the Government a "Project of Law" devised by the bondholders, providing for the extinction of the debt and for the holders of the bonded debt to construct the railroad.

Should the arrangement be accepted, they would guarantee themselves out of the proceeds of the customs of Amapalà.

Regarding this project, the communication which crossed between the Minister of Honduras and Mr. Bain and the rest of the antecedents in the case, an account is given to Congress May 23rd and 28th of same year, who saw fit to turn it over to the Executive, to whom it pertains at present, to treat regarding the proposition, with the parties interested, and submit the agreement at convenience to your knowledge, conformable to the requirements of the Political Constitution of Honduras.

In view of this resolution the Government, in order to proceed with the greatest thoroughness, nominated on June 9th, two of the ablest Lawyers of the Country, Don. P. J. Bustillo and Don. Angel Ugarte, in order that, in representation of the Government, conferring conjointly with the representative of the Bondholders of the Foreign Debt of Honduras and with those of any other Company or individuals, who hold any interest in the proposition, to arrange the said Debt and the construction of the Inter-Oceanic Railway across the territory of the Republic and also leasing the section of same already constructed; giving equally ample powers to Messrs. Bustillo and Ugarte, by which—if they arrive at a satisfactory conclusion—they may from the Contracts which they judge necessary, respecting the points previously explained, giving account of those to the Government, by which they arrive at the resolution which they believe convenient, and authorizing said representatives that they can propose a Secretary and two clerks,

which can be nominated for the Office, and which they can use, in the fulfilling of their Commission, and of all the documents which they can obtain in the National Archives and Public Offices, concerning the matter with which they are charged.

The Conferences and other acts it will be the duty of Messrs. Bustillo and Ugarte to put in a special record.

On June 15th, the representative of the Government held the first conference with Mr. W. J. Bain; the latter being the representative of the Bondholders of the Foreign Debt of Honduras, and after three more days, 17, 20, 22 of the same month, in which they met to discuss the Powers of Attorney of Mr. Bain. The representatives of Honduras observed that the legal conditions necessary to constitute him absolutely the representative of the Bondholders:

(1) Because, being the corporation of Bondholders of London,—an anonymous society,—it is indispensable that Mr. Bain fills the requirements exacted by our laws, in order that he may treat in the name of the persons who have conferred upon him the power to compromise them.

(2) Because, speaking in the name of the Committee of Foreign Bondholders, it is indispensable to produce the act in which the Bondholders, in meeting convened for that purpose, did constitute the Commission, of which he speaks, and the powers which they conferred on him.

Mr. Bain answering the observations that were made, stated that his powers gave him the authorization of the Corporation of Bondholders, acting conjointly with the Committee of Bondholders of the Foreign Bonds of Honduras, to represent the Corporation, the said Committee, and the holders of Honduras Bonds; and to act in favor of each of them respectively, and in their name negotiate with the Government of Honduras an arrangement over the agreement printed and added to the written Power of Attorney, and upon the "Project of a Law," which in this agreement reference is made; and, in general, to negotiate with the Government of Honduras an arrangement over the Foreign Debt of the Republic, obligating the corporation referred to, to ratify everything that was legal in respect to it; that said Power has authorized him in conformity with the laws and regulations of the corporations,

as indicated in the final paragraph, and indispensably requisite because it was signed by the President of the Corporation, which gives it its Official character, and which already owes its existence to an act of Parliament, and the signature of the President is unquestionable, because the document is authentic.

The Power must be examined for the terms in which it was conferred, not singly, but in relation to the printed Agreement, which is attached, made in London, December 4th, 1902, and in relation with the "Project of Law," to which this agreement refers, which is also attached; which in Article 5, of this "Project of Law" declare, that the amortization of the Bonds will be effected conformably to a plan which the corporation outlined, and which will be approved by a general meeting of Bondholders, convoked by Corporation for verification in London, that Article 10 of said "Project" establishes that those arrangements which are made will not be effective, and will not obligate the State and the Bondholders until they may be accepted by Resolution of a General Meeting of said Bondholders, which the Corporation will convoke conformable to the laws and regulations, which binds it, and will take place in London; which established that Officially that the Corporation of Bondholders represents by means of its President, the holders of Bonds, and makes clear that the same President of the Corporation is the President of the Committee of Honduras, the representation conferred by the Power cited, is full, notwithstanding what it does in the exercise of this power upon the "Agreement" and "Project" presented, holds that it be approved by the Bondholders in General Meeting; that the Corporation of Bondholders and the Committee of Honduras has not been organized conformably to the laws of Honduras regards anonymous societies, then it owes its existence to English Laws, and these Laws at the same time that they protect the rights of the claimants will be the safeguard of the rights of Honduras, that an Official Corporation does not dare to do wrong; and that in consequence, hopes that holding the representation good, true and perfect, it is in order to pass to the study of the "agreement" and the "project" presented to the Government for the ensuing results.

The representatives of Honduras replied: that for the terms of the Act or Decree of the English Parliament, copy of which Mr. Bain presented, the Corporation of Bondholders is an anony-

mous society, and that in conformity with the principles of International Law and the Legislation in force in Honduras, its representatives cannot exercise any such act without being competently authorized according to our prescribed laws; that it only required that Mr. Bain complies with the laws of Honduras, so that he can bind his constituents; that Mr. Bain has not produced the act in which it is made clear that the Corporation of Holders of Foreign Bonds and the Committee of Bondholders of Foreign Bonds of Honduras have constituted a Committee; that which is not demonstrated by the act, by which the President and Vice-President of the Corporation of Holders of Foreign Bonds may be the same as the Committee of the Holders of Bonds of the Foreign Debt of Honduras, apparently the one and the other are distinct entries.

For these reasons, Messrs. Bustillo and Ugarte declares they cannot treat with Mr. Bain regarding any business referring to the Foreign Debt of Honduras.

Mr. Bain protested and the Representatives of the Government did the same.

Mr. Ugarte went to the United States and Europe, commissioned by the Government, for which reason Mr. Bustillo continued alone studying the matters concerning our Foreign Debt.

Tegucigalpa, January 7, 1904.

(Signed) ALBERTO MEMBRENO.

The Carden's Agreement,

1909.

PROPOSAL OF BRITISH MINISTER CARDEN.

Tegucigalpa, March 10, 1909.

General Miguel Oqueli Bustillo,
Minister of Finance and Public Credit, City.

My Dear Friend:—As I promised to His Excellency, the President of the Republic, and to you last night, I have the pleasure to herein inclose the data which I have used to form the project for the settlement of the debt, which I have had the honor to submit to the consideration of the Government of Honduras.

The essential part of the project, as you know, consists in the payment by Honduras of £1,600,000 in forty yearly installments of £40,000 each.

To carry into effect these payments the Government assigns to the Council of Foreign Bondholders the net proceeds (usufructo) of the railway and wharf, besides an additional impost of 15 per cent over the import duties, which will be payable by means of special certificates, which shall be delivered to the Council for sale in the several ports of the Republic.

Complying with these conditions, the Government has no other responsibility—if for any eventuality the collections from the aforesaid revenues in one year do not produce enough to complete the payment of said annuity of £40,000. In such case the deficit shall be covered with the surplus of the following year or years.

Herewith I inclose some tables which show the reasons that I have to believe that the said revenues not only will give the amount needed to cover the forty installments of £40,000, but will leave a big surplus.

The table No. 10 shows the increase obtained in three of the most important railways in Mexico, which proves what can be expected in Honduras.

The table No. 11 shows the relation between the operating expenses to the gross earnings of thirteen railways in several countries of Latin America, which give an average of 60%.

The table No. 13 shows the products which may be expected of the existing railways, starting from the basis of actual earnings, to, say, £40,000 per annum.

In the first of these tables the cost of operation is estimated in 65%, and in the second 70%. In both is subtracted the service of interest and sinking fund of an issue of £80,000 of railway reconstruction bonds.

It has been estimated an annual increase of the gross earnings of the railway of 10% in each one of the next nine years, and 5% on the succeeding years. It may be noticed that this increase per centum is calculated upon the products of the first year instead of every preceding year, which is more favorable.

Table No. 19 shows the products of the wharf (its increase being calculated on the same basis), taken as a whole with those of the railroad; calling your attention to the fact that the last ones are estimated upon the basis of a cost of operating of 65% of the gross earnings.

To figure out the difference in case the expenses of operation would be 70% instead of 65%, one only has to reduce the figures of the seventh portion.

Table No. 9 shows the increase of the import duties in the last ten years, which gives an average of 5.51%.

In in those years of war and revolutions there has been such an increase, surely it is not improbable to expect a continuance in the future, even not taking into consideration the necessary result of the rehabilitation of National credit abroad.

This table shows, besides, what can be expected from the 15% additional which it is proposed to establish on said customs (duties).

The first column of table 20 shows the total expected products of railroad and wharf; the second one the 15% additional of the import duties; and the third one the surplus in favor of the Government, subtracting the amount of the annuities of £40,000, which will be applied to the amortization of the debt.

I avail of this opportunity to repeat to you once more your affectionate friend, &c., &c., &c.

(Signed) LIONEL CARDEN.

BASIS WHICH THE GOVERNMENT OF HONDURAS ACCEPTED FOR THE SETTLEMENT OF ITS FOREIGN DEBT IN MARCH, 1909.

Tegucigalpa, March 11, 1909.

Article 1. It is taken as a basis of settlement the sum of £452,000, as representative value of the external debt originated from the four loans of 1867, 1869 and 1870, acknowledging on that amount of the interest of 8.86% during the time of its amortization, which is here fixed in forty years and installments of £40,000.

Article 2. The said annuities shall be applied by drawings or by purchases to highest bidder to the amortization of the bonds in the following proportion:

1st —Drawing of	£1,000,000	at 20%.....	£200,000
2nd—Drawing of	1,000,000	at 25%.....	250,000
3rd—Drawing of	1,000,000	at 30%.....	300,000
4th—Drawing of	1,000,000	at 35%.....	350,000
5th—Drawing of	1,398,570	at 40%.....	559,428
	£5,398,570		£1,659,428

Article 3. The holders of bonds shall present their titles to the Council of Bondholders in London within two years, to be stamped in accordance with the present stipulations in order to enter to the amortization.

Article 4. For the payment of the forty annuities of £40,000 referred to:

(a) The Government cedes and assigns to the bondholders the *usufruct* (net earnings) of the Interoceanic Railway and Wharf of Puerto Cortes for forty years, or until the debt is extinguished, if this can be effected before, the bondholders taking charge of its administration and opreation.

(b) The Government will issue bonds of first mortgage on the railway for the amount of £100,000 to provide funds which will be applied to the necessary improvements, the Council of Bondholders being obligated to contract their sales to best possible rate. The service of interest and sinking fund of these bonds shall be preferential charge on the net products of the railway.

(c) The Government will assign also for the payment of the annuities referred to the proceeds of an additional impost of 15% on the import duties which shall be established to this effect.

This import shall be collected specially and exclusively by means of customs certificates, which shall be issued at the time of signing the contract of the settlement of the debt, depositing them in the hands of the trustees, and delivering them to the agents of the bondholders for their sale to the merchants according as they are needed.

Article 5. The products of the revenues referred to in the preceding clause shall be applied by the Council of Bondholders, in the first place, to the payment of the said forty annuities of £40,000, depositing the surplus, if any in any year, in a bank to the order of the Government, but under the precise condition that it must be applied exclusively for the payment of the contracts that the Government makes for construction of railways.

Article 6. If for any eventuality the products of the revenues of which mention is made in Article 4 would not suffice in one year to complete the payment of the annuity of £40,000, the deficit will be completed with the surplus of the next following year, or years, without bearing interest.

(Signed) LIONEL CARDEN.

LETTER OF THE HONDURAS MINISTER OF FINANCE TO MINISTER CARDEN.

Tegucigalpa, March 11, 1909.

Excellency Lionel Carden, Minister of H. B. M., City.

Dear Sir and Friend:—Being agreed upon the basis of a settlement of the external debt, and though the President has exact idea of the importance of the re-establishment of the credit of the Republic by the payment of her debt, I am compelled to manifest to you that must not be overlooked the heavy burden which will be imposed upon the nation with the annual payment of £40,000 which in the actual state of poverty would be very onerous to the Honduras worker.

Taking into consideration this circumstance, the President believing that he cannot justify before the opinion of his fellow-citizens the delivery of the railway and wharf, besides the overcharge of 15% on the customs duties, without receiving in compensation other direct and immediate benefit besides the rehabilitation of the national credit.

What other benefits could be offered to the Honduran people in order that they may receive with delight the agreement of the settlement of the debt? No other is so agreeable to the country than the immediate reconstruction of the first section of the Interoceanic Railway, and the construction of the second section, besides the construction of branches to exploit the fertile lands on the Chamelicon and Ulua Rivers, as the cultivation of bananas constitutes the main industry of the people on the north coast, and this would enable them to carry easily the burden imposed on them.

To your Excellency it is a matter of easy understanding the high reason of public convenience of these remarks, and you may calculate their transcendency. Therefore, if the Government agrees that the country make sacrifices for the rehabilitation of her credit, also has a right to expect, and even to demand, that the creditors contribute to help Honduras to redeem her debt, promoting the development of her resources and population.

His Excellency the President believes that besides the proposed basis of settlement must be stipulated the obligation of the creditors to improve and extend the existing railroad, and build branches, with the first mortgage, as with its delivery, the rights of the bondholders are guaranteed (secured, protected).

The Government would feel sorry that the creditors do not understand the importance of these remarks, because a failure of this arrangement before public opinion, and consequently before the National Congress, would redound in detriment of the Government and the creditors themselves, and that would retard indefinitely any understanding.

By all above stated, and in order to assure to the negotiations a final success, I consider necessary to let the bondholders understand that the Government will demand, besides the obligation of reconstructing the road and improving its equipment, to continue the line to the south and build branches, investing £200,000 which may be obtained with the first mortgage of the railway.

Furthermore: the Government understands that at the time of closing the settlement of the debt, the Government and the bondholders in common accord will give the administration of the railway and wharf to a person or company who shall accept the obligations and rights which shall be stipulated in the contract to be celebrated to that effect; and that the Government and the bondholders will appoint an interventor, each, to verify the accounts of administration, and supervise the collection and inversion of the earnings of railroad and wharf.

Finally, the Government believes that at the time of celebrating the contracts will be stipulated all those conditions which will fix the mutual guarantees.

With my best distinguished consideration, it is a pleasure to remain your friend,

(Signed) MIGUEL O. BUSTILLO.

BRITISH MINISTER TO PRESIDENT DAVILA.

No. 142 Cablegram.

Guatemala, 25th of June, 1909.

Received in Tegucigalpa 25th June, 10:30 p. m.

To His Excellency the President of Honduras, Tegucigalpa:

By instructions received from my Government I have the honour to advise your Excellency of the acceptation on the part of the Council of Foreign Bondholders of London of the basis of the arrangement of the foreign debt of Honduras proposed by your Excellency the 11th of March of the current year.

At the same time I have the pleasure of expressing the satisfaction with which the Government of H. B. M. has seen the good disposition and conciliatory spirit displayed by the Government of your Excellency in the negotiations, due to which it has been made possible to arrive at a solution so satisfactory and honorable for both parties.

(Signed) BRITISH MINISTER.

O. K. 114.

The United States' Interference,

1909.

MEMORANDUM OF MINISTER BROWN.

Under instructions from my Government, which I have just received by telegraph, I have the honor and the pleasure to inform the Government of Honduras that the firm of J. P. Morgan & Co. has informed my Government that they are prepared to agree in the arrangement of the foreign debt of Honduras, the delivery of the railway and wharf of Puerto Cortes, and the advancement of a substantial amount for internal improvements which may be necessary, acquiring new bonds which must be duly secured.

Messrs. Morgan & Co. have notified my Government that the Council of Foreign Bondholders had accepted the proposal of Morgan & Co., who now have control of the British and American securities, including the railway and wharf, and that the Council of Foreign Bondholders, acting in behalf of the holders of bonds, have informed the British Secretary of State for Foreign Affairs of the foregoing, and that the Secretary of State for Foreign Affairs having cordially approved the new project, has, by request of the Council of Bondholders, given notice to Minister Carden of the change in the situation.

I have instructions to manifest that if the Government of Honduras would send a special agent to the United States with full powers to negotiate with Morgan & Co., the Government of the United States would extend to him all facilities.

I beg to add that the Government of the United States feel itself happy to see, in the said proposals, the prospect of a good result and for a settlement upon a favorable basis for the amortization of the National debt, which would be for the prosperity, tranquility and National strength of Honduras.

(Signed) PHILIP BROWN.

Tegucigalpa, July 17, 1909.

BRITISH MINISTER CARDEN TO MINISTER OF FOREIGN RELATIONS, HONDURAS.

British Legation,
Guatemala, July 31, 1909.

Mr. Minister:

Under instructions from H. B. M. Government, I must manifest to Your Excellency, for the information of the Government of Honduras, that the Council of Foreign Bondholders feel sorry that circumstances foreign to their will had obliged them to abandon the agreements for the settlement of the debt to which they had previously consented.

The Government of Your Excellency is therefore relieved of the compromises made with the British bondholders and is free to enter into new arrangements.

I have sent to-day instructions by telegraph to H. B. M. Consul *ad interim* in Tegucigalpa to notify Your Excellency in the sense above referred to.

I avail of this opportunity to renew to Your Excellency the protests of my most distinguished consideration and esteem.

(Signed) LIONEL CARDEN.

His Excellency Dr. Don Jose Maria Ochoa,
Minister of Foreign Relations, Tegucigalpa.

Morgan's Proposition,

1909.

CIRCULAR OF THE COUNCIL OF FOREIGN BONDHOLDERS.

HONDURAS EXTERNAL DEBT.

Holders of Bonds of the Honduras 5% Loan (1867), the 10% Railway Loan of 1867, the 6 2/3% Railway Loan of 1869, and the 10% Railway Loan of 1870, are invited to forthwith deposit their Bonds with the Council of Foreign Bondholders against the issue of negotiable deposited Securities to Messrs. J. S. Morgan and Company, against a cash payment of £15. for each £100 of existing Bonds with unpaid coupons attached, provided a settlement of the Debts of Honduras under the auspices of the Government of the United States is effected by the 4th of August, 1910.

Lists with the conditions of Deposits can be obtained on application.

(Signed) JAMES P. COOPER, Secretary.

17, Moorgate Street,
London, E. C.
5th of August, 1909.

CONDITIONS OF DEPOSIT.

(1) The Council is constituted the holder for the time being of the deposited Securities and is invested with all the powers of the actual owners thereof, and is authorized to deliver the deposited Securities to Messrs. J. S. Morgan and Company, against payment in cash of the sum of Fifteen Pounds (£15) in respect of each One Hundred Pounds (£100) Bond and unpaid coupons thereon, if and when an arrangement satisfactory to Messrs. J. P. Morgan and Company is concluded between the United States of America and the Republic of Honduras for the settlement of the Debt, of which the deposited Securities form part, provided that such payment be made on or before the 4th day of August, 1910.

(2) Should payment not be made by the date named, the Council, in accord with the Committee of Holders of Honduras Bonds, is authorized to extend the above period or to negotiate any other arrangement and to act generally as they may deem

expedient in the interests of the Certificate Holders; but any such extension of time or arrangement shall only be binding on all Depositors, if, and when ratified by resolution of a General Meeting of the Certificate Holders convened by the Council in manner provided by its Rules and Regulations, the Holders of Certificates issued in respect of Honduras External Bonds of all classes being convened and voting together.

(3) No Holders of Certificates issued in respect of deposited Securities shall be entitled to claim delivery of such Securities except on a general re-delivery to be made when deemed expedient by the Council and Bondholders' Committee.

THIRTY-SIXTH ANNUAL REPORT OF THE COUNCIL OF THE CORPORATION OF FOREIGN BONDHOLDERS. FOR THE YEAR 1909.

EXTRACTS.

General Remarks (page 13).

In the case of Honduras, a quite unexpected development has taken place, proposals having been put forward by Messrs. J. S. Morgan and Company to purchase the External Bonds, subject to an arrangement being arrived at between the United States and Honduras for the issue of a new loan, and the collection of the revenues under the supervision of the United States Government.

* * * * * *

Honduras (page 15).

Early in 1909 a scheme for the settlement of the External Debt was submitted by the Council to the Government of Honduras through the good offices of Mr. Lionel Carden, H. M.'s Minister in Central America. This scheme was approved by the President in March, but before the necessary steps could be taken to submit the proposals to the Bondholders the Council were informed that the suggested arrangement was not acceptable to the United States Government, as it did not provide for the settlement of the American Claims against Honduras. At the same time a new proposal was put forward by Messrs. J. P. Morgan and Co. of New York, for the purchase of the External Debt, subject to certain

conditions. Negotiations thereupon took place between the Bondholders' Committee and Messrs. J. S. Morgan and Company of London, and after careful consideration the Committee resolved to recommend the Bondholders to deposit their securities with the Council in assent to the following offer: That, subject to a satisfactory arrangement being arrived at between the Governments of the United States and Honduras within a period of twelve months, and provided a majority of the securities is deposited in assent to the scheme, Messrs. J. S. Morgan and Company undertake to purchase the Bonds at the rate of £15 in cash for each £100 of Bonds of the four outstanding Loans with arrears of interest.

On the 5th of August the Council issued notices inviting the holders to deposit their Bonds against the issue of Certificates, and at the close of the year nearly £2,000,000 of Bonds had been so exchanged. On the 22nd December an official quotation on the Stock Exchange of the Certificates representing negotiable Bonds of the English Railway Loans of 1867 and 1870 was obtained, and the Council are of opinions that holders who have not yet deposited their securities would be well advised, in their own interests, to do so without delay. It is true that the terms of settlement are disappointing, but the Council and Committee satisfied themselves that it was impossible to obtain more, and a small sum in cash is undoubtedly equal to a very much larger amount in Honduraean promises. As the projected arrangement has the active support of the United States Government, it ought to stand every chance of a successful conclusion, and according to the most recent information received, the negotiations which have for some time past been proceeding at Washington, between the Finance Minister of Honduras and the State Department, have made satisfactory progress. Moreover, as the United States Government has intervened to frustrate the consummation of the agreement of March, 1909, mentioned above, it is morally bound to secure the success of the scheme which, in accordance with its own wishes, has been put forward in its place. The arrangement will, it is presumed, have to receive the approval of the United States Senate and the Honduras Congress.

Morgan Asks Extension of Time for His Option on the

Honduras Bonds.

1910.

"HONDURAS EXTERNAL DEBT."

Delay in settlement explained—THE QUESTION ON COMPENSATION.

London "Financial Times," July 27, 1910.

A general meeting of the holders of Deposit Certificates representing Honduras Government Bonds, convened by the Council of Foreign Bondholders, was held yesterday at their Office, 17 Moorgate St., E. C. "for the purpose of considering the situation and a proposal of Messrs. J. P. Morgan and Company *to extend the present arrangement for a further period of six months.*"

The Hon. Sir Charles W. Fremantle, K. C. B., Vice-President of the Council presided.

The Secretary, Mr. James P. Cooper, having read the notice convening the meeting.

The Chairman said: Gentlemen:—I am sorry to say that Lord Avebury is prevented by illness from being present to-day. I am sure we all regret his absence. He had expected until the last moment to be able to come up, but I suppose the weather had been against him and his doctor will not allow him to come. I have received the following letter from him, which he desires me to read to you.

Kingsgate Castle, Isle of Thanet, July 23, 1910.

"For the first time since I have had the honor of being President of the Council I fear that I shall be prevented by illness from attending a meeting of the bondholders, though I will come up at the last moment if I can. In these circumstances I have prepared some remarks which I shall be glad if you will have read to the meeting."

"The Bondholders' Committee is to meet on Tuesday, previous to the general meeting, and circumstances may, of course, alter, but I have every confidence in their judgment, and have little doubt that were I able to be present I should concur with them. They have given great care and attention to the subject, are themselves largely interested, and I venture to hope that the meeting will support them."

I will now ask the Secretary to read Lord Avebury's speech to you.

LORD AVEBURY, ON THE SITUATION.

The Secretary then read Lord Avebury's speech as follows:

"The present meeting is a somewhat unexpected event, and the circumstances under which the necessity for it has arisen are undoubtedly disappointing. I do not propose to occupy your time with the past history of the Honduras Debt, or of the efforts which have been made by your Committee to bring about a settlement. *It is sufficient to go back to the early part of 1909, when your Committee, with the valuable co-operation of the British Minister in Central America succeeded in arranging terms with the Government of Honduras.* Before, however, the proposals could be submitted to the Bondholders, *the United States Government intervened and substituted its own scheme,* which contemplated the refunding of the entire indebtedness of the Republic. Negotiations then took place with the Council and Committee, who were able to secure a considerable improvement in the terms as originally proposed, and it was agreed that, subject to the necessary arrangement being made between the Government of the United States and Honduras, Messrs. Morgan and Company should purchase the Bonds of the External Debt at the rate of £15 cash for each £100 nominal bonds with all overdue interest. The agreement allowed a period of one year for the arrangement to be effected, and the Council thereupon, in accordance with Messrs. J. P. Morgan's request, invited the Bondholders to deposit their securities in assent to the scheme. A prompt and satisfactory response was given to this invitation, *the amount of bonds lodged with us and on the Continent being about* £4,000,000, which constitutes a large majority of the total debt said to be outstanding."

"The date fixed for the arrangement to be concluded and the cash payment was the 4th of August next, but under the conditions of deposit an extension of time could be granted if approved by resolution of a general meeting of the holders of certificates issued in respect of deposited bonds. The question which you have to consider is whether you are prepared to grant an extension."

LETTER FROM MESSRS. MORGAN, GRENFELL AND COMPANY.

We had confidently hoped that the £15 cash would be paid on or before the 4th of August, but a few days ago we received a letter from Messrs. Morgan, Grenfell and Company informing us that their friends in New York were not prepared to make the payment on that date. This letter is as follows:

22 Old Broad Street, London, E. C., July 18, 1910.

James P. Cooper, Esq.,

Secretary, Council of Honduras External Debt.

"Dear Sir:—Referring to the letter of 27th July, 1909, from our predecessors, Messrs. J. P. Morgan and Company, to yourself with a view to an arrangement of the External Debt of Honduras, we beg to inform you that our friends Messrs. J. P. Morgan and Company advise us that the arrangement between the United States of America and the Republic of Honduras, contemplated under the first condition of deposit, has not been concluded, and that consequently they will not be able to make payment mentioned in the said condition of deposit on the 4th proximo.

"We understand from Messrs. J. P. Morgan and Company that the negotiations are proceeding satisfactory on the other side. *The Honduras Congress will meet in October, and if approved thereby, the proposition for the settlement of the debt will be subject to ratification by the Congress of the United States of America,* which meets in December. Should either of the Governments fail to approve the project would have to be dropped, but in case the matter should be definitely settled before the end of the current year.

"Under these circumstances, Messrs. J. P. Morgan and Company are willing to extend the present arrangements for a further six months—say, till the 4th February, 1911, should the Council of Foreign Bondholders wish to do so.

"Messrs. J. P. Morgan and Company inform us that from advices received they are hopeful of a successful result from the negotiations.

"We shall be glad if you will submit Messrs. J. P. Morgan and

Company's proposal to your Committee and advise us of its decision as regards the extension of the agreement with the Bondholders for a further six months."

Yours faithfully,

(Signed) MORGAN, GRENFELL AND CO.

"This letter contains the whole of the information which Messrs. Morgan and Company have been able to give us. While we quite admit that it is disappointing that the matter has not been settled within the time originally allowed, we think it must be granted that it is impossible to prevent delays arising in delicate negotiations of this kind, and where two Governments are concerned, *and it is only natural that the United States Government should wish the arrangement to receive full and formal ratification by Congress.* It does not follow that the arrangement will fall through, and it is, at any rate, satisfactory to note that Messrs. J. P. Morgan and Compony state that the negotiations are proceeding with out any hitch, and that they are hopeful of a successful result. *It certainly would seem that as the United States Government have intervened and substituted their own scheme in the place of that negotiated by the Committee under the auspices of the British Minister, they are bound to see the matter through, and it is difficult to believe that they would have felt justified in taking the action they did unless they had clearly seen their way to bringing the matter to a definite conclusion."*

THE QUESTION OF COMPENSATION FOR THE DELAY.

"Your Committee met on the 20th inst., and, after carefully considering Messrs. Morgan, Grenfell and Company's letter, came to the conclusion that they recommend you to grant the extension of six months proposed by Messrs. Morgan, provided that interest at 5 per cent per annum, running from August 4th, to the date of payment, is added to the £15. This seems an eminently fair and reasonable proposal, but I regret to say *that Messrs. Morgan and Company do not appear disposed to fall in with it.* It is therefore, for you to consider what course you will adopt, whether you will grant it without any *quid pro quo;* or whether you will grant it on condition that some compensation is given for the delay, and if

so, what that compensation should be. As an alternative to the payment of 5 per cent interest, another proposal has occured to us, and it is this: *The total of the External Debt said to be outstanding is£5,393,570, but owing to the long time the debt has remained in total default, it is probable that the whole of this amount will never be presented for payment. The suggestion is that one-half of the saving effected owing to a smaller amount of bonds claiming payment should go to the certificate holders in the form of an addition to the very modest sum of £15,* which they are offered under the present scheme. It would be quite possible when the £15 is paid to give each holder a certificate entitling him to receive his share of any such saving at the proper time."

The Chairman:

"By no means. The fact of the matter is that certain formalities are necessary before the scheme can be considered as final. It is thought that during the next six months they will have been able to conclude the arrangement, and that it will have been possible to submit it to the Honduras Chambers and also to the Senate of the United States, which is necessary in the case of any treaty.

Mr. Watson:

"Do you think they are likely to accept the alternative suggestion if they will not pay the 5 per cent from the 5th August to the time of payment?"

The Chairman:

"It is difficult to say. There are precedents in favor of their making some concession, and of course, the ordinary business transaction would be that if you cannot pay on a particular date, you must pay interest until the time for actual payment."

Mr. T. H. Wells:

"If we do not accept the delay what else is there to be done?"

THE COMMITTEE'S SUGGESTION.

The Chairman:

"That is for the Bondholders to decide. Perhaps I might venture now to say what the Committee would suggest, which is that we should grant the delay, but that we should require some compensation in respect of it. (Hear, Hear!). If you are pre-

pared to agree to delay, we would suggest that you should leave it to the Council and the Committee to see what terms they can make. (Hear, Hear!). We do not want to trouble you to meet again in the month of August, which would be very disagreeable. We hope that they will make some proposal to us, which perhaps you might like to make to the council and committee, who have your interests at heart, to decide upon. But that is, of course, for the bondholders to say. I will read you the resolution which we drew up, thinking that possibly you might like to accept it. It is as follows: *That this general meeting of holders of deposit certificates representing Honduras Government bonds, hereby authorizes the Council of Foreign Bondholders and the Committee of Honduras Bondholders to grant an extension of the time fixed by the first condition of deposit for six months; namely, to 4th February, 1911—provided that compensation for the delay is granted in such form or manner as the Council and Committee may approve."* (Hear, Hear!). We should not, of course, be in a position to make an arrangement with Messrs. Morgan without compensation except by another meeting of the bondholders and hearing what their opinion was. This will merely leave to the Council and Committee the details of any arrangement for compensation that might be proposed, and which they might think acceptable to the bondholders."

Mr. F. C. Horne:

"I should like to point out to the Bondholders that we are not really receiving compensation for the extension of the option. *We gave Messrs. J. P. Mrgan and Company an option for nothing running to 4th of August. When it expires they may ask for an extension for six months without giving us compensation or any further payment for the extension of the option;* but as the due date on which payment should have been made is the 4th of August we merely ask that if they carry on the business, they should pay interest from the 4th of August, as if they had paid cash, because the Honduras Government should pay it, and it is no doubt through their fault, that the delay has occured. If the business had been settled they would have had to pay interest on any new bonds they issued from the 4th of August; therefore, in asking for this payment of interest, we are really only asking them to carry out the Contract, giving them further time and the further option to carry it out, and I am surprised that Messrs. Morgan should

have so far refused it. I think that if they meet the Honduras Government and confer on the subject they will see that the amount is so small—it is only about £12,000—that they will not defer the arrangement on that account, if they mean to carry it out at all.

"AN EXCELLENT PRECEDENT."

"There is, moreover, an excellent precedent in this matter. I was interested in the Santo Domingo Loan, and there we had to give one or two delays. *It was in 1905-6, that the United States intervened in the settlement of the debt of Santo Domingo exactly in the same way as it has done in that of Honduras, setting on one side an existing arrangement, which, strange to say, had been made under its own auspices in 1904, and under which rights of English holders of Santo Domingo bonds were especially secured.* Owing to a delay of exactly the same nature as had occurred in the present instance, the new arrangement was not carried into effect until 1908, but the bondholders received compensation by the addition of interest to the principal amount agreed to be paid. I do not see that one can have a better example. Although it has not a direct bearing on the present case, *I cannot help taking this opportunity of saying that the English holders of Santo Domingo bonds, of which I was one, were most unfairly treated under the arrangement of 1908,* as compared with the French and Belgian holders of identically the same securities; and I must express my surprise and regret that although hopes have been held out that we should receive justice, so far nothing has been done. As regards the present arrangement, I also wish to point out that Messrs. Morgan state in the letter we have heard read that the negotiation between the two Governments are still proceeding, so that there can be no difficulty in making alteration in the terms. They have come to practically no arrangement with the Honduras Government, and if we hold out for the extra interest I think we shall probably get it. If not, let them accept the alternative scheme, which will cost them nothing. *We should simply be participating in any bonds which might be lost or destroyed.* I think we should certainly hold out for something in place of the interest which we are entitled to if they will not pay the interest itself.

Mr. Watson:

"I think we cannot do better than fall in with the resolution drafted. We should certainly have some compensation, and I shall have much pleasure in moving this resolution, as I am satisfied it is the right course to adopt."

Mr. Wells seconded the resolution and it was carried unanimously.

The proceeding them terminated.

Morgan's Options to the Honduras Bonds Expired

February 4th, 1911.

EXTRACTS FROM THE THIRTY-SEVENTH ANNUAL REPORT OF THE COUNCIL OF THE CORPORATION OF FOREIGN BONDHOLDERS. FOR THE YEAR 1910.

General Remarks (page 12).

As to Honduras, disappointing as the delay must be to the Bondholders, there are, no doubt, many difficulties in the way; but, as previously pointed out by the Council, the Government of the United States, having intervened in order to substitute their own scheme of settlement in the place of that negotiated in 1909, by H. M.'s Minister in Central America, are under the strongest obligation to see the matter brought to a successful conclusion.

Honduras (page 16).

The period of twelve months, within which the arrangement for the settlement of the External Debt was to be concluded, and the agreed price of £15 Cash per £100 of Bonds paid, expired on 4th August, 1910; but much to the disappointment of the Council, a notification was received from Messrs. Morgan and Company, towards the end of July, stating that negotiations between the Governments of the United States and Honduras had not been concluded, and that they were therefore unable to make payment on the date named. In these circumstances it was suggested that an extension of time for six months should be allowed, although it was fully expected that the matter would be decided one way or the other, by the end of the year, as the arrangement was to be submitted to the Congress of Honduras during the month of October, and to the United States Senate in December. A public meeting of the holders of Certificates representing the deposited Bonds was held at the Council House on July 26th, when it was resolved to grant an extension of time for six months, viz, to 4th February, 1911, provided compensation was given for the delay in such form and manner as the Council and Committee might approve. This resolution was communicated to Messrs. Morgan and Company, who, in reply, stated that they were not able to pay the Bondholders anything more than the £15 per £100 of Bonds as originally agreed. In answer to this, the Council pointed out that the conditions on which the Bondholders were prepared to assent to the delay in payment was a reasonable and usual one, and that if the arrangement

had been carried through in the stipulated time, the Government of Honduras would presumably have had to provide interest from August 4th, 1910, on the entire new Loan to be issued under the Arrangement. Messrs. Morgan thereupon undertook to communicate the Council's views to their friends in New York. The long-protracted negotiations between the Governments of the United States and Honduras were then resumed, but the year 1910 passed away without any definite results being arrived at, and without even the submission of the proposed Arrangement to either Congress. In reply to their inquiries, the council said, however, informed that the negotiations were progressing satisfactorily, and in his message to the United States Congress, on 6th December, 1910, President Taft made the following allusion to the matter:

"The Republic of Honduras has for many years been burdened with a heavy bonded debt held in Europe, the interest, on which long ago fell into arrears. Finally, conditions were such that it became imperative to refund the debt and place the finances of the Republic upon a sound basis. Last year a group of American Bankers undertook to do this, and to advance funds for Railway and other improvements contributing directly to the Country's prosperity and commerce—an arrangement which has long been desired by this Government. Negotiations to this end have been under way for more than a year, and it is now confidently believed that a short time will suffice to conclude an arrangement which will be satisfactory to the foreign creditors, eminently advantageous to Honduras and highly creditable to the judgment and foresight of the Honduranean Government. This is much to be desired, since, as recognized by the Washington Conventions, a strong Honduras would tend immensely to the progress and prosperity of Central America."

On January 10th, of the present year, a Convention was signed at Washington between the Representatives of the United States and Honduras, and it was fully expected that the matter would be concluded before the expiration of the six months extension of time on February 4th, Honduras had, however, in the meantime become involved in a fresh revolution, and the whole of the seaports on the Atlantic Coast fell into the hands of General Manuel

Bonilla, the insurgent leader. The Loan Treaty appears to have been submitted to Congress at the end of January, but owing, as it is understood, to the disturbed state of the Country, it failed to pass.

On the 1st of February the Council received a communication from Messrs. Morgan and Company stating that in consequence of the ratifications not having been exchanged, they were as yet unable to carry out the purchase of the Bonds, but expected shortly to approach the Bondholders with an offer like the original one.

Messrs. Morgan and Company stated that the negotiations were still proceeding, and as the United States have been invited to arrange an armistice between the opposing parties, it is hoped that, peace being restored, the arrangement will before long become an accomplished fact.

Thirty-Seventh Annual Report of the Council of the Corporation of Foreign Bondholders for the Year 1910.

HONDURAS.

External Debt.

	Present Amount.	Total.
Five per cent. Loan of 1867.....	£78,800*	
Interest (October, 1872, to October, 1910)	149,720	
		£228,520
Ten per cent. Loan of 1867.....	900,700	
Interest (July, 1872, to July, 1910)...	3,422,660	
		4,323,360
Six and two-thirds per cent. Loan of 1869	2,176,570	
Interest (March, 1873, to September, 1910	5,441,425	
		7,617,995
Ten per cent. Loan of 1870.....	2,242,500	
Interest (July, 1872, to July, 1910)...	8,521,500	
		10,764,000
Total		£22,933,875

*The amount of the bonds in circulation is understood to be £60,900, the balance of £17,900 being in the hands of the Honduras Government.

HONDURAS COMMITTEE.

Right Hon. LORD AVEBURY, Chairman.
F. BURT, Esq.
C. T. D. CREWS, Esq.
Hon. SIR C. W. FREMANTLE, K.C.B.
F. G. HORNE, Esq.
ALFRED JAQUES, Esq.
A. PINTO LEITE, Esq.
GEORGE METCALFE, Esq.
W. J. RENDALL MOORE, Esq.
His Honor, Judge SIR THOMAS SNAGGE.
H. T. TATHAM, Esq.
JAMES P. COOPER, Esq., Secretary.

Area (Estimated), 46,000 square miles.

Population (census 1905), 500,136.

Capital, Tegucigalpa. Population, 34,600.

President, General Miguel R. Davila.

External debt, per head, including arrears of interest, £45, 17s. 1d.

British Minister and Consul General for Honduras (resident at Guatemala), Lionel Carden, Esq.

Agent of the bondholders at Porto Cortes, W. J. Bain, Esq.

HISTORY OF THE DEBT (FOREIGN).

1827.—Upon the breaking up of the Central American Federation the proportion of the 6 per cent. Federal Debt (£163,000) alloted to Honduras was two-twelfths, or £27,200. No interest was paid on this by Honduras.

1867.—Five per cent. Conversion Loan. Amount, £90,000. Sinking fund, 1 per cent. Specially secured on the customs dues of the port of Amapala. This loan was issued for the conversion of the above debt, amounting, with arrears of interest, to £90,075, and for the liquidation of other liabilities in London, amounting to £30,375.

The holders of the old bonds received £55,000 new bonds in satisfaction of their claims. The settlement was affected as a preparation on the part of the Government for floating a loan for the construction of an Interoceanic Railway.

1867.—Ten per cent. Railway Loan. Amount, £1,000,000. Issued at 80 per cent. by Messrs. Bischoffsheim & Goldschmidt for the construction of an Interoceanic Railway. The interest was secured upon the railway and its revenues and the produce of the mahogany forests. The Government undertook to provide an annuity of £140,000 for fifteen years from 31st December, 1869, for the service of the loan, and promised the subscribers half the profits of the proposed railway for fifteen years after its redemption.

1869.—Six and two-thirds per cent. Govt. Railway Loan. Amount, £2,490,108. Issued in Paris by Messrs. Dreyfus & Co. at 75 per cent. Redeemable at par in seventeen years by half yearly drawings. Security, first mortgage on State railway and forests.

1870.—Ten per cent. Government Railway Loan. Amount, £2,500,000. Sinking fund, 3 per cent. by Messrs. Bischoffsheim & Goldschmidt, on account of Mr. C. J. Lefevre, for the completion of the Interoceanic Railway. Security, the railway and its revenues and the produce of State domains.

1872-73.—All four loans went into default, the interest having been paid out of the money borrowed.

1875.—The loans were the subject of investigation by a Parliamentary Committee.

1887-93.—A concession, which included a settlement of the External Debt, was granted to Mr. Binney for the completion of the Interoceanic Railway. The existing bonds of the Foreign Loans, with arrears of interest, were to be exchanged for £100 shares in a new railway company to be formed in London. The old bonds were to be lodged in the Bank of England pending the completion of the railway, upon which the Government was empowered to cancel them. The company was formed in 1888, but the Government declined to renew the concession when it expired in 1892. A similar concession was granted to an American Company, which, however, contained no provision for the settlement of the debt, and was canceled in 1893.

1896.—A new concession for the construction of the Interoceanic Railway, and embracing a settlement of the External Debt, was granted to the "Honduras Railway Company," who appear to have been the successors of the company formed in 1892. The terms proposed to be offered to the bondholders were £15 in shares in exchange for each £100 of bonds with 23 years arrears of interest. The committee declined to submit such a proposal to the bondholders and the concession lapsed.

1897.—An American syndicate, styled the "Honduras Syndicate," who were the successors of the "Honduras Railway Company," concluded a contract with the Government for the building of the railway, the settlement of the foreign debt, and the establishment of a bank charged with the collection of the customs. Each £100 External Debt Bond, with arrears of interest, was to be exchanged for £25 of new 1½ per cent. bonds, redeemable within 25 years, and secured by a guarantee from the bank and a first charge upon the railway. The contract did not specify the date at which interest on the new bonds would begin, nor the length of time allowed for the conversion. All new bonds not claimed within the period allowed by the Syndicate were to be divided between it

and the Government. The committee consented to negotiate on the basis proposed, provided that they were satisfied with the security offered: that the interest commenced forthwith, and that the conversion remained open for a reasonable time. Disputes, however, arose between the Government and the Syndicate, owing to the latter having failed to carry out its contract as regards both the construction of the railway and the settlement of the External Debt, which led to the revocation of the concession in 1900,

1900.—A second contract with the "Honduras Syndicate" was approved by Congress on the 26th of May, 1900. This arrangement provided for a lease of the already constructed portion of the railway to the Syndicate for 25 years at an annual rental of $15,000 gold. Under pain of forfeiting the lease, the Syndicate bound itself: (a) To erect a bridge over the Ulua, and to reconstruct that over the Chamlecon within two years from the approval of the contract; (b) to reconstruct the existing line within four years, and (c) to build and open to traffic the line from Ulua to Comayagua within five years. It also undertook to construct 25 kilometres of railway within two years, and to complete the line to the Gulf of Fonseca within seven years from the same date. The Syndicate also obtained a preferential right to construct branch lines, and, for fifteen years from the fulfillment of stipulations (a), (b) and (c), the right to construct a line from the Northern Coast parallel to the existing section. This contract contained no reference to the External Debt.

1902.—The Syndicate, notwithstanding its failure to carry out the conditions of the above contract, obtained an extension of time of one year from the Government—viz., to 26th May, 1903.

Bancroft Library

1903.—The "Honduras Syndicate" again failed to execute the works required under its contract, and the Government on 26th May took possession of the railway.

1903-04.—Dr. Angel Ugarte was sent to Europe by the Government as Special Commissioner in connection with the settlement of the debt. The proposals made by Dr. Ugarte were rejected by the committee as entirely inadmissible.

1909.—Proposals for a settlement were made by Messrs. J. S. Morgan & Co. (See page 16 of Report for 1909).*

CONCLUSION.

CONCLUSION.

By the documents herein published it appears that from 1867 to 1870 Honduras authorized four issues of bonds in Europe to the amount of £6,080,108, of which only £681,538 have been redeemed, and £5,398,570 are outstanding, with arrears of interest to the approximate sum of £17,535,305:

	Bonds			Arrears of
	issued	redeemed.	outstanding.	interest.
1867, London ...	£90,000	£11,200	£78,800	£149,720
1867, London ...	1,000,000	99,300	900,700	3,422,660
1869, Paris	2,490,108	313,538	2,176,570	5,441,425
1870, London ...	2,500,000	257,500	2,242,500	8,521,500
	£6,080,108	£681,538	£5,398,570	£17,535,305

According to the conditions of the prospectus, these bonds should have produced enough to build the Interoceanic railway, 230 miles long, from Puerto Cortes to the Bay of Fonseca:

Second issue, £1,000,000 bonds at 80%—	£800,000
Third issue, £2,490,108 bonds at 75%—	1,867,581
Fourth issue, £2,500,000 bonds at 80%—	2,000,000
£5,990,108 bonds	£4,667,581

The construction of the railway was contracted with Messrs. Waring Brothers & McCandlish, of London, for £2,230,000:

First section 53 miles.....	£500,000
Second section 85 miles.....	930,000
Third section 92 miles.....	800,000
230 miles	£2,230,000

The contractors received £689,745 and built only 53 miles of the line. What disposition was made of the proceeds of the loans? The Report of the Select Committee of the British Parliament, which investigated these loans, gives a full and complete account of the many frauds committed in the issue and sale of the bonds, and of the misappropriation of the funds. This report is published in the Blue Book of the British Parliament of 1875.

Notwithstanding the circumstances of the many illegal transactions made in London and Paris in the name of Honduras, we always have tried to settle this question on an equitable basis, and never have thought of repudiating the debt.

We owe what we received. The amount has been fixed by debtor and creditor to be £452,000, as per the Carden agreement of March, 1909.

Now that this arrangement has been broken on account of the United States interposing, we have to deal with the problem as it stands to-day.

Honduras needs the Interoceanic Railway for her industrial and commercial development; but the Railway Bonds are a burden on the line, which cannot be carried to its completion unless they are refunded or cancelled.

How to solve this problem?
How to settle the Railway debt?
How to build the Railway?
Must we have to borrow money?
How much can we borrow?
What is our borrowing capacity?
What security can we give?
These questions can be answered as follows:

1. We need to arrange the external debt in order to free the Railway from any mortgage and proceed with its construction.

2. To arrange the debt we need no loan at all, because Honduras is able to pay annual installments proportionate to her financial resources, provided a syndicate undertakes the construction of the railway.

3. If Honduras would make a loan to cancel *at once* the old bonds, the annuity would be more than if she agrees to the plan of amortization of the old bonds proposed by the bondholders in 1903, cancelling £200,000 bonds each year, at an increasing rate of 10 to 20% in the course of 27 years, as follows:

4 years,	£200,000	Bonds each year....	at 10%
4 years,	200,000	Bonds each year....	at 12%
4 years,	200,000	Bonds each year....	at 14%
4 years,	200,000	Bonds each year....	at 16%
4 years,	200,000	Bonds each year....	at 18%
7 years,	200,000	Bonds each year....	at 20%

In this way Honduras would pay in 27 installments £840,000, as follows:

4 annuities of	£20,000	each.....	£80,000
4 annuities of	24,000	each.....	96,000
4 annuities of	28,000	each.....	112,000
4 annuities of	32,000	each.....	128,000
4 annuities of	36,000	each.....	144,000
7 annuities of	40,000	each.....	280,000
Total.....			£840,000

4. By assuming the payment of the debt, Honduras may grant a concession for the construction of the second and third sections of the Interoceanic Railway. Any American syndicate would be willing to have the first section with the obligation of building the second and third within a reasonable time.

5. Instead of the Government financing the Interoceanic Railway, Honduras would allow an American syndicate do it as a business proposition.

6. Honduras has no means to pay the interest and sinking fund of a big loan. She can spare some money from her actual income for the amortization of the old bonds, relying on the probable increment of the Government revenues through the increase of business which the construction of the Interoceanic Railway would assure.

7. Honduras could not give other security for a loan than the Customs Revenues and the Railway. But the financiers want to have the direct administration of the customs houses and Railway under the protection of their Government. Honduras has rejected this proposition, and is disposed to start new negotiations for the settlement of the debt and the construction of the Railway.